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U.S. FOOD AID PROGRAMS AND WORLD HUNGER

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
FOREIGN AGRICULTURAL POLICY

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-NINTH CONGRESS

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U.S. FOOD AID PROGRAMS AND WORLD HUNGER

Overview of U.S. Food Aid Programs and World Hunger

TUESDAY, JULY 15, 1986

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:18 a.m., in room 332, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senators Boschwitz, McConnell, Dixon, Heflin, and Zorinsky.

Also present: Senators Helms, Andrews, and Melcher.

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

The CHAIRMAN. The temporary Chair is advised that the chairman of the subcommittee, Mr. Boschwitz, has been inadvertently delayed. He's on his way here from the airport.

In the interest of the time of everybody concerned, I will open the hearing and, of course, turn over the gavel to Senator Boschwitz when he arrives.

Were he here, I would commend the distinguished chairman of the subcommittee for holding these hearings, which is the first of three scheduled on food aid and world hunger. We have a most impressive list of witnesses.

[Senator Boschwitz enters.]

Well, and with that I will ask unanimous consent that the balance of my statement be made a part of the record.[1]

And I yield the chair to the distinguished subcommittee chairman.

Senator BOSCHWITZ. Thank you, Mr. Chairman. I'm sorry to be late. The shuttle from New York was, as usual, a little bit late.

But why don't you go ahead, and I will reserve my statement until other opening statements have been made. If you want to proceed, Senator Andrews.

[1] See p. 107 for the prepared statement of Senator Helms.

STATEMENT OF HON. MARK ANDREWS, A U.S. SENATOR FROM NORTH DAKOTA

Senator ANDREWS. Well, I appreciate that very much, Mr. Chairman. I appreciate your holding these hearings.

I think one of the key things that we have to look at, Mr. Chairman, is that this committee passed out late last year a new farm bill, and that farm bill is keyed to export. Without exports the bill isn't going to work.

We took a look at where we were spending money, and we took the 90 cents we were spending to store grain and we put it on flooring the loan rate, as the chairman of the subcommittee knows so well. And that was to expedite these exports.

Unfortunately, that hasn't happened yet. We are told—and we hope that this hearing finds out for us—that we are making some progress in getting these exports under way. That's the hope of our farmers, the hope really of making this new farm bill cost effective for the American farmer. The farmer is confused—you can't blame him for that—he is voting now on a referendum, trying to figure out whether this program should continue or a different one should be put in place.

I think looking, Mr. Chairman, at the picture up there of the bags of wheat that are coming into a nation, an underdeveloped country, where hunger is rampant—and we saw the starvation in Ethiopia earlier this year. As a matter of fact, there was a rock concert held to take care of the starving in Ethiopia. There was another rock concert held to raise money to take care of the farmers who were going bankrupt because they were producing too much food. That doesn't make any sense at all.

I think what we have to find out in these hearings—and that's why I salute the chairman for holding them—is why isn't the BICEP Program working, why isn't the administration facilitating Food for Peace, why aren't we moving ahead.

One of the things about your picture, Mr. Chairman—it says on those bags "From the People of Minnesota," and I appreciate your getting one from Minnesota. We could have had one from the people of North Dakota, there could be one from the people of the United States. But it goes on to say "Port Sudan, wheat, CARE."

That's a cooperative setup under Food for Peace, as the chairman knows so well.

But you know, Mr. Chairman, and the chairman of the full committee, Senator Helms, I would hope that we can direct our Department of Agriculture to stop labeling those bags in English when you send them to a country that's hardly literate. Label them at least in their own language. Put a picture of Uncle Sam, the American people, giving to the people of that nation the food that sustains them.

Mr. Chairman, the point that we have to make, when our President is going to meet with Gorbachev in a couple or three months, talking about nuclear reduction—those two heads of superpowers speak for nations that can blow the world up 10 times over; they speak for nations that can put people in space.

But only one, President Reagan, speaks for a nation that can produce enough food for itself and have enough left over to help

feed the hungary in other countries. We shouldn't be talking about the farm problem; we ought to be talking about our agricultural advantage. It's a way that I think we can prove to the people of a troubled world that our system does work better than any system in the history of mankind.

That's why these hearings are important and that's why, Mr. Chairman, the Senator from Minnesota, and the chairman of the full committee, Mr. Helms, and our colleagues from the Democratic side of the aisle, I hope that we can on a bipartisan basis put together a package that moves these exports to where they are needed.

So thanks for holding these hearings, and you have my full support in what you are trying to do.

Senator BOSCHWITZ. Thank you, Senator. This picture was given to me by Senator Kennedy, whose staff was in Ethiopia and southern Sudan. We had a fundraising drive in Minnesota, and the wheat was subsequently bagged by General Mills. Some of the bags were red, white, and blue, as I understand it, which is probably a better symbol than trying to put writing on them.

Senator ANDREWS. I get a little tired, Rudy, of hearing when the Ethiopians had their tragic famine last year, we were flying in an American plane Canadian wheat, and the Soviets were on the ground taking credit for it.

You know, Food for Peace is a wonderful thing, but I think we ought to get some of the credit for it, because it is a function of our unique system of government here in the United States.

Senator BOSCHWITZ. I think there was a broad understanding of where the food was coming from. We sent enough food for about 20,000 people for 6 months from an effort that was made in Minnesota.

And this very interesting picture is an indication that it was getting to the people who needed it.

Senator Zorinsky.

Senator ZORINSKY. In the interest of time, Mr. Chairman, I request that my prepared statement be placed in the record.[1]

Senator BOSCHWITZ. Certainly, without objection.

Senator Melcher, do you have an opening statement?

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator MELCHER. Yes, I do. This committee operates in a bipartisan manner—and that's good. If we ever needed bipartisanship, it's right now, because we are in a tough situation.

First of all, these hearings may be not just a day late and a dollar short but may be 2 months late and $2 billion short, because that's the sag in exports that has occurred during the last 2 months.

That's a pretty serious situation and it's getting worse. Exports of agricultural commodities continue to shrink. Last May's report is that for the first time in at least 15 years, we imported more

[1] See p. 109 for the prepared statement of Senator Zorinsky.

food into the United States than we exported—a very startling statistic.

There are two methods that we can use for export. I think we all know this at this table, but I don't think the administration seems to understand that. We can have the sales where people have cash, whether Japan, Korea, Russia, or China, and we just sell it through the commercial exporters—and those have been dropping for a variety of reasons.

But the second method is one that we are in a good position to use. That's where we use Public Law 480 or section 416 or some of the newer programs that we have added to our repertoire to offer to developing countries.

But we have a variety of programs that are in place, in the statutes, that simply are not being used at all, or are used to such a small degree that they have no impact. There are about 80 or 90 friendly countries around the world with which we deal—but principally there are 60 to 70 that have significant amounts of utilization of our food surpluses.

We are simply not pressing on these potential markets. In fact, the State Department has been blocking some. I believe this is reprehensible. Granted that these are rather small sales or small donations—I call them sometimes "micro-sales" rather than "macro-sales," but micro-chips do add up—and these are simply not being utilized.

Now we find the administration pondering whether it wants to use $225 million for African famine relief, and the $75 million that they say is remaining in Public Law 480—that sort of debate, that sort of delay, has no place in the real world that we exist in today.

Too often, rather than cooperation between the administration and this committee, we find exactly the reverse with the State Department.

Chairman Helms very prudently and wisely agreed to have staff members from this committee, both Democrats and Republicans, go to the Philippines to see what could be utilized there, and what their needs were.

And now, Ms. Bloch, I hope you are listening, and I hope you, Secretary Wallis, are listening. They were described by the State Department out there as arrogant twits. That's the staff of this committee. They happen to know what they are doing in regard to meeting food needs, and agricultural export potential to a friendly country such as the Philippines.

The State Department is going through an exercise called privatization where each country that applies is supposed to explain to the U.S. State Department how they can privatize this particular sale or donation. Privatize, as I understand it, means they are supposed to have private enterprise. Well, there are a lot of small countries that don't have private enterprise, but even in those countries where there is private enterprise to a significant degree we still find the utilization of these programs blocked.

What is the economic outcome of all this? We on this committee understand what it does to producers. We understand what it does to agribusiness. We understand what it does to rural America. In one short word, it means they go broke.

But it's even more serious than just that. What does it do to the entire economy of the United States? It is so big that it can drag down the entire economy of the United States. We are seeing signs now that indicate a very weak economy.

What are the results for consumers? One of the first things that consumers can look forward to as producers go broke, agribusiness goes broke, and rural America goes broke, is higher beef prices a year from now. That's No. 1. Significantly higher beef prices a year from now, because there is no credit out there; these cattle are going to slaughter because the people have to sacrifice them, besides the dairy herd buyout plan—they have to sacrifice them. There is no credit for feeders to buy them back, to replenish their lots this fall. This happens to be the middle of July and contracting for calves and yearling steers should be going on right now. It is not going on because there is no credit out there, and no confidence in what you can do with it. We do have one of the bigger corn crops coming on. There will be plenty of feed—but feeders don't have any credit with which to buy the cattle.

We are looking forward to a very discouraging price for our feeder cattle this fall in States like mine.

We've the most efficient producers in agribusiness and methods of handling food in the entire world. But as the agribusiness people, the producers, go broke, you will find that eventually all commodities will be higher priced for the consumer.

Mr Chairman, that's all I have.

Senator BOSCHWITZ. Thank you, Senator. Senator Heflin, do you have an opening statement?

Senator HEFLIN. I have a statement which I would ask be put in the record.[1]

I'd like to make a comment. I think the posters and pictures are very helpful to us to give us a message. I've noticed that since the onset of television in the Senate there has been a proliferation of posters. In fact, I have seen more posters since we have had television in the Senate since I've been in the fifth grade. [Laughter.]

Senator ANDREWS. Visual aids.

Senator Boschwitz. I certainly hope, Senator, that they have added to your understanding of the issues. [Laughter.]

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. Mr. Chairman, I would like to make an opening statement as the chairman of the Foreign Agricultural Policy Subcommittee.[2]

This is the first in a series of hearings that we will be holding on the issues of world hunger and food aid.

We are not specifically addressing, Senator Melcher, the sag in exports, and I certainly am as concerned as anybody else about that. They should be seen for what they are. As prices are coming down there is going to be a lower price for the new crop, and feedstocks will also be drawn down. There is no doubt that every seller in the world is trying to empty his shelves and that every buyer is

[1] See p. 110 for the prepared statement of Senator Heflin.
[2] See p. 108 for the prepared statement of Senator Boschwitz.

waiting for the lower prices; sellers are emptying their bins and shelves before the lower prices occur.

And so, it is not surprising that as we make the transition to a lower loan rate we do have a sag in exports. I, too, hope that they will turn around, and I fully expect they will. I think that we have to stick with the policy that is in the farm bill and not tinker with it before we even give it a chance to take effect.

Our food assistance programs are a key element in our agricultural and foreign policies. I think that the American people should have a great degree of pride because we have given billions of dollars, and rightfully so, to those who are hungry. Those programs, as Senator Andrews has pointed out, were indeed expanded in the 1985 farm bill.

This morning's hearing aims to provide the subcommittee with an overview of world hunger and food aid. The second hearing will look at humanitarian relief in problem areas. The focus of the final hearing will be on economic growth and market development in the Third World.

I have three interests and three reasons for these hearings which are all interrelated.

First, preventing hunger both domestically and worldwide is a priority of mine and also of this Nation. Second, agriculture and its role in short-term solutions and long-term prevention is an important element. Third, foreign policy and the role of the United States in assisting other countries in developing their own domestic markets also has an effect on world hunger.

I would like this hearing and the series of hearings to be forward looking and to focus on prevention. I know that we have now directed the Departments of Commerce and Agriculture to look forward and to see where prevention should be applied and where the problems are going to arise in the future.

This is a picture, as I indicated, of something that was Minnesotan in origin and that was the result of pennies eollected in classrooms, plus moneys given by larger donors—labor unions and all kinds of groups. As I said, the General Mills Co. did the packaging and bagging. Enough wheat and nonfat dried milk to feed 20,000 people over a 6-month period went out through the Port of Duluth.

I don't want to suggest that the problems of the Sudan or Ethiopia have been solved. I know that there has been some misuse of those moneys, and I suppose this hearing will focus on that, and rightfully so.

But efforts are being made, and I think the American people should have some pride in their own efforts and the efforts of their Government. While it's easy to say that we should do more, it is sometimes not easy to do so without disrupting foreign economies or foreign agricultural economies as we try to solve their hunger problem.

I was very pleased at the Minnesota project, incidentally, that resulted in this picture being nominated for a 1986 Presidential award.

We have a full agenda this morning—we are getting a little bit of a late start. We will examine the past performance of food aid programs with an eye toward identifying their successes and disappointments. We will take a look at how the new authorities provid-

ed for in the 1985 farm bill are being implemented, and we will further consider the directions of food aid, including proposals for improving aid programs.

It's my hope that these hearings on food aid will help to ensure that the programs will operate more effectively and for the benefit of all people.

The first group of witnesses is the Honorable Daniel Amstutz, Under Secretary for International Affairs and Commodity Programs; the Honorable Allen Wallis, Under Secretary for Economic Affairs; and the Honorable Julia Chang Bloch, Assistant Administrator of the Bureau for Food for Peace and Voluntary Assistance, the Agency for International Development; and Craig Nalen, the president of OPIC, who is indeed a Minnesotan.

So is Secretary Amstutz, that's right. Oh, yes, Allen Wallis, too. This is a Minnesota panel.

What about Ms. Bloch—you don't look Swedish, but are you also a Minnesotan?

Ms. BLOCH. No, sir; I can't claim that.

Senator BOSCHWITZ. All right, we will proceed with Secretary Amstutz.

STATEMENT OF HON. DANIEL G. AMSTUTZ, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE

Secretary AMSTUTZ. Thank you, Mr. Chairman. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to discuss with you the Department's food aid programs and the implementation of new provisions under the Food Security Act of 1985.

In the past decade there has been substantial progress in alleviating world food problems, although we need only to remember last year's news stories about Africa to know that the tasks remaining are formidable.

However, many of these remaining tasks are not related solely to food production. Our economists estimate that the food assistance needed to meet minimum nutritional needs in the world's 69 developing countries declined sharply in 1985–86 and will fall an additional 1 million tons in 1986–87, largely because of the greatly improved food situation in Africa. In 16 of the 20 sub-Saharan countries with national food emergencies last year, domestic cereal supplies have returned to normal. However, severe food shortages continue in Ethiopia, Angola, Mozambique, and Cape Verde, where we are continuing to provide assistance.

As I said, the total 1986–87 cereal needs for all 69 countries have dropped 1 million tons from 1985–86.

The assessment is quite different for the various regions of Africa. In the sub-Sahara, 1986–87 projected needs are up from a year earlier by 205,000 tons in east Africa and 436,000 tons in west Africa. Conversely, assessed needs are down by 57,000 tons in central Africa and 80,000 tons in southern Africa.

For Asia, additional cereal needs are 525,000 tons lower than for 1985–86. Food needs to meet optimal nutrition levels are down 4.6 million tons from the 1985–86 assessed level of 20.3 million. These

needs are concentrated in south Asia and east Africa, each of which requires 5.2 million tons.

Overall, annual global food production increases have been running slightly ahead of the population rate for the past 10 years. With food output and population growing at nearly the same rate, storage and distribution constraints on large volumes of food imports are the key problems that limit progress in meeting food needs. These constraints pose the greatest problems in east and southern Africa and in south Asia, with Ethiopia, Mozambique and Bangladesh facing the greatest difficulties. According to USDA estimates, these constraints will limit the 69 developing countries from absorbing one-fifth of the cereals needed to meet minimal nutritional standards in 1985–86.

As a leader in agricultural production, the United States has long recognized its responsibility to help end world hunger. The United States is the world's largest food donor; it has provided more food assistance to developing countries than all other nations combined. We are also a major source of financial aid and technical assistance.

The cornerstone of the U.S. Food Aid Program is Public Law 480, or the Food for Peace Program. In the more than 30 years this law has been in existence, it has enabled the United States to meet emergency and short-term needs of hungry people around the world. Since 1954, the United States has distributed over 35 billion dollars' worth of farm products to over 100 countries.

Public Law 480 concessional credit sales programs under titles I and III have been effective in economic development and in creating commercial markets for U.S. farm products. For fiscal 1986, the funding for this program is almost $900 million, which will provide long-term concessional financing for almost 5½ million metric tons of agricultural commodity exports. Our budget request for 1987 is $944.4 million, which should provide financing for a greater tonnage.

The title II donation program is designed to relive both chronic, long-term food shortages in lower income developing countries and emergency food requirements arising from natural disasters, such as droughts or floods. A large portion of title II food assistance moves through U.S. private voluntary organizations. The fiscal 1986 title II budget is set at $754 million, which will provide 2.2 million metric tons, on a grain-equivalent basis, of food donations. We have requested a program level of $600 million for the 1987 title II program, which will provide 1.9 million metric tons of food donations. This decrease reflects our expectation that food aid needs in sub-Saharan Africa in 1987 will be substantially below those of the past 2 years, plus the fact that lower commodity prices will enable us to provide a larger quantity of food with less dollars.

I should also note that we continue to have other resources to provide food aid should it be needed.

In addition to Public Law 480, agricultural commodities acquired by Commodity Credit Corporation are made available under section 416 of the Agricultural Act of 1949 for carrying out programs of assistance abroad.

The Food Security Act of 1985 made several major amendments to section 416 with respect to the overseas donation of CCC com-

modities. The list of eligible commodities was expanded to effectively include all edible commodities held by the Commodity Credit Corporation. However, quantities of dairy products, grains, and oilseeds acquired through price-support operations may be made available only if the Secretary determines that such quantities cannot be disposed of by CCC in normal domestic channels without impairment of the price-support program or sold abroad at competitive world prices.

Minimum quantities were established of certain commodities that the Secretary of Agriculture must make available annually. The Food Security Act of 1985 also broadened authority regarding the sale by recipients of donated commodities to support both distribution and certain developmental activities.

The authority to replenish the 4-million-ton food security wheat reserve was extended by the Food Security Act of 1985. The purpose of the reserve is to assure the availability of wheat for the Public Law 480 program even if and when the domestic supply of wheat becomes so limited that criteria for making wheat available under Public Law 480 could not be met except for urgent humanitarian purposes.

Up to 300,000 tons of wheat may be released from the reserve in any fiscal year without regard to the domestic supply situation, to provide urgent humanitarian relief in any developing country suffering a major disaster when the wheat could not otherwise be made available in a timely manner. Wheat from the reserve was used in 1985 to help meet the African famine needs. The quantity used has been replenished and is available again if needed.

In addition to reauthorizing the Food Security Wheat Reserve and changing several aid programs, the Food Security Act of 1985 established two new programs—Food for Progress, and the local currency sales initiative.

The Food Security Act of 1985 authorizes a Food for Progress Program through fiscal year 1990 which seeks to use U.S. agricultural commodities to help developing countries improve their local food production. Under this program commodities will be provided to countries that will work to implement private, free-enterprise agricultural policies. Commodities provided under the program would be in addition to any assistance a country normally receives from the United States. The program can be carried out under the authority of either section 416 or title I of Public Law 480. Negotiations are under way for two Food for Progress Programs, and we expect agreements to be signed shortly.

The Food Security Act of 1985 authorizes a new, innovative effort under the authority of title I, Public Law 480, to generate economic growth through the private sector in foreign countries. To achieve this goal, sales of commodities for local currency under title I of Public Law 480 have been reinstated. The local currencies accruing to the U.S. Government as a result of these sales can be loaned to financial intermediaries in title I countries, who will then lend these currencies to local private entities, primarily in the agricultural sector. The procedures for this new program are being developed, and programs may be under way by early fiscal 1987, if not later this fiscal year. I might add that we are pressing to begin them this year.

The administration is committed to continuing its efforts to help meet the world's food assistance requirements. The lower prices which will result from the changes made in agricultural commodity programs by the Food Security Act of 1985, combined with our longstanding food aid efforts, will give us the tools we need to meet that commitment.

Mr. Chairman, that concludes my statement. I will certainly be happy to respond to questions.

Senator BOSCHWITZ. I note that Senator McConnell is with us, and, Senator, do you have an opening statement?

Senator MCCONNELL. Mr. Chairman, I will just ask that it be submitted for the record.[1]

Senator BOSCHWITZ. Fine.

Senator MCCONNELL. Secretary Wallis and others—I look forward to hearing what they have to say.

Senator BOSCHWITZ. I think we will proceed, unless there is objection, to hearing all the witnesses. Are any of the witnesses particularly constrained by time?

OK, then, we will turn to Secretary Wallis.

STATEMENT OF HON. W. ALLEN WALLIS, UNDER SECRETARY FOR ECONOMIC AFFAIRS, U.S. DEPARTMENT OF STATE

Secretary WALLIS. Thank you, Mr. Chairman. I have a statement that I will submit for the record, and I will just give a very brief summary of some of the main points.[2]

Secretary Amstutz' statement was very comprehensive, and I will concentrate on one or two points from it.

I am glad to have this opportunity to appear here and discuss some of the matters that you are interested in.

In general, our Food Aid Program has served us well. It has saved millions from starvation and malnutrition. It's a vital tool of foreign policy. It helps our friends in times of economic difficulty, and it has helped develop world trade in agriculture in general, and it has developed markets for U.S. agricultural products in particular.

Public Law 480 has had some notable successes as an engine of economic development. For over 30 years, our title I concessional sales program, with accompanying economic reform or what have been called self-help measures, administered by the Agency for International Development, has operated in all regions of the world. And so far this fiscal year the United States has committed almost $900 million under this program, divided about equally among Africa, Latin America, Asia, and the Near East.

Although the recent performance of Public Law 480 as a catalyst for economic development has been encouraging, more could be done.

The corrosive expansion of government spending, government control, and government intervention in economies has prevented progress in a number of underdeveloped economies. Foreign aid has at times a role in inadvertently supporting this all-consuming growth of government.

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[1] See p. 110 for the prepared statement of Senator McConnell.
[2] See p. 112 for the prepared statement of Secretary Wallis.

AID is very much aware of that risk and AID's Bureau for Private Enterprise is giving increasing attention to assisting developing countries to promote investment, technology transfer, exports, vocational training.

Further steps in those directions should be encouraged.

And that brings us to the specific point at hand, the recent changes in food aid programs enacted under the 1985 Food Security Act. Section 1111 in particular provides an opportunity to involve the private sector directly in the process of development. Local currencies under the control of the U.S. Government, not controlled by the foreign governments, will be lent through private financial intermediaries in direct support of private commercial ventures, particularly in agriculture, the program that Secretary Amstutz described.

If that is successful, it could produce benefits way beyond its relative size in the budget. We believe that the private sector lending program can be successful if it is administered flexibly and with a minimum of redtape.

Carol Brookins, who is chairman of a State Department private sector advisory group on food, hunger, and agriculture, has studied these issues in depth, particularly as they relate to hunger and malnutrition. She will be giving her views to the committee, and I commend her testimony to your attention.

The advisory group points out that the salient feature of the hunger problem in the world today is not the overall lack of food but the lack in certain areas of purchasing power. In other words, economic development and income growth are central to the resolution of the hunger problem.

Six or 8 years ago, the late Dr. Sterling Wortman, another Minnesotan, who was then vice president of the Rockefeller Foundation in charge of food programs, pointed out a rather startling fact that should be obvious to an economist: He said nobody in the world is hungry—if they have money. And that, I think, still remains true.

The basic problem is economic development. Mr. Chairman, the new Public Law 480 private sector lending program provides a promising way to administer our food aid programs in a way that not only will provide short-term relief but also will lay down a foundation for economic development that can deal a more lasting blow to the threat of hunger.

I am gratified by the increased attention that these issues are getting both in the Congress and in the executive branch.

Thank you. I will submit the further statement for the record and be available for commenting on questions.

Senator BOSCHWITZ. Thank you very much, Mr. Secretary. Now we will turn to Ms. Bloch, who is the Assistant Administrator for the Bureau for Food for Peace and Voluntary Assistance for the Agency for International Development.

STATEMENT OF HON. JULIA CHANG BLOCH, ASSISTANT ADMINISTRATOR, BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE, AGENCY FOR INTERNATIONAL DEVELOPMENT

Ms. BLOCH. Thank you very much, Mr. Chairman, members of the committee. I am honored to appear before you and to be among this august group of witnesses.

I hope that I can do credit to AID Administrator Peter McPherson who, because of an unhappy family emergency, cannot be with us today.

First of all, on behalf of the Agency for International Development, I would like to express our appreciation to this committee for your keen interest and leadership in reauthorizing the food aid programs under the Food Security Act of 1985, particularly for the emphasis that you have given to the private sector initiatives.

We would also like to compliment the committee staff for taking the time and making the effort to continually maintain a constructive dialog with us to get the programs effectively off the ground.

At their suggestion, I will comment on three major topics. And in the interests of time please allow me to summarize my testimony with the understanding that my official statement will be incorporated in the hearing record.[1]

First, the status of implementation of the new provisions contained in the Food Security Act of 1985.

As Under Secretary Amstutz has testified, we are off and running on the Food for Progress Program. Happily, there was a complete coincidence of interests between the administration and the Congress on this program. As you know, the President's Third World hunger study recommended in December 1984 a new tool for addressing global hunger problems. Thus, the idea for Food for Progress was launched.

This committee, in authorizing the Food for Progress Program, turned that idea into reality. As early as May, the Development Coordinating Committee, the DCC, agreed to fully fund two projects, one in Madagascar and another in Guinea, using 60,000 metric tons of rice made available from section 416 resources.

Next is clearly the most significant new initiative under Public Law 480, the local currency lending program. I am sorry that the chairman of the committee is not here, because, perhaps, this program should be called the Helms 106–108 program.

This initiative is on track. Draft guidelines have been distributed. We are now working with committee staff, AID missions, and representatives of the private voluntary organization community to finalize these guidelines. Already our missions in Tunisia, Morocco, and Jamaica have expressed an interest in using local currencies to fund financial intermediaries in private sector lending activities.

The DCC expects to get several country initiatives under way as soon as possible.

My second topic is food aid lessons from the African emergency. Mr. Chairman, I believe the United States can stand tall. The administration, the Congress, and, most of all, the American people successfully carried out in cooperation with the international com-

[1] See p. 114 for the prepared statement of Ms. Bloch.

munity the largest, most complex, and the logistically most difficult emergency operation in history. Our response to the Africa famine of 1985 to 1986 called forth the best that is America: Our spirit of generosity, our tradition of helping those less fortunate than ourselves, and our renowned ingenuity and candor of spirit which delivered 4.7 million metric tons of food, valued at some $1.6 billion. This occurred in 40 countries across Africa, despite civil strife, sometimes uncooperative governments, impossible roads, washed-out bridges, nonexistent transportation infrastructure, and difficult food distribution systems.

Even though sometimes governments may not have appreciated what the international community and the United States did, we have concrete evidence that the recipients did. As you probably know, in the most remote sections of Sudan, where there are no newspapers and no television, sorghum in those regions today is known as Reagan. That's what the people call sorghum in those parts.

This is not to say that our response was perfect—nothing, unfortunately, is. The African emergency, however, proved to be a valuable lesson in the uses and limits of food aid. The principal lesson we learned is that in the future in Africa there will be droughts, but there need not be famines if we heed the lessons of this famine.

My formal statement highlights eight of the most compelling findings and conclusions from our assessments and evaluations of our African emergency relief operations.

Let me just briefly confirm what you probably already know. Droughts do not necessarily produce famines. More often, famines result from the venality of governments and the ineptitude of their social, economic, and political policies.

More often, lack of income, as Under Secretary Wallis has pointed out, rather than lack of food, is at the root of food emergencies.

Feeding people will reduce their suffering and save them from starvation, but it will not prevent famines.

Again, as Under Secretary Wallis said, economic development and income growth are the real solutions to famine prevention. By the way, economic development and income growth also are key to the expansion of American agricultural exports. We all know that our traditional markets are stagnant—if not increasingly closed—to our exports. On the other hand, 40 percent of our overall agricultural trade today involves countries that are classified as developing, that market having grown from $2.2 to $15 billion in less than a decade.

Without economic development and income growth, there is no hope of bringing the mass of consumers in the developing world into the market and within reach of adequate diets. There is a coincidence of interest between famine prevention, economic development, and market development.

This brings me to my final topic, future prospects in our 1987 program proposal. As Under Secretary Amstutz has said, the budget we have submitted this year was prepared within the context of the Gramm-Rudman-Hollings legislation and the effort by the administration and the Congress to address effectively the deficit problems which face the country.

Although our overall budget request is lower than that of fiscal year 1986, we expect to be able to ship approximately the same amount of food as in fiscal year 1986, due largely to lower commodity and shipping costs.

We will continue to use our Public Law 480 resources to provide support for policy reform, economic development, and income growth. The new initiatives which this committee authorized, particularly Food for Progress and local currency lending, will further emphasize that direction. AID's ultimate goal is a world in which economic development and income growth are self-sustaining, and the extremes of poverty have been eliminated. A not insignificant reason why this goal is worthy of all our support is the belief shared by this administration that economic development is the key to ending world hunger and one of the best ways to open markets and to increase trade. Food aid, correctly used, has immeasurably helped developing countries. It has also helped to create wider demand for commercial U.S. agricultural exports.

Thank you very much, and I will be happy to answer any questions.

Senator BOSCHWITZ. Thank you, Ms. Bloch, for a very excellent statement.

The CHAIRMAN. Mr. Chairman, I must go and speak to the Export Commission, and I have a time crunch. I apologize for asking this, but could I raise two or three questions?

Senator BOSCHWITZ. Why don't you proceed with your questions?

The CHAIRMAN. I will be as brief as possible, and I apologize to Mr. Nalen, because I will not hear his statement.

First of all, Ms. Bloch, let me be just a little bit provincial. Are you familiar with the awarding of the freight forwarding contract for title II shipments to Universal Shipping Co., an award that was made last year?

Ms. BLOCH. Yes, I am aware of it.

The CHAIRMAN. Why was this contract bid out of the AID Office of Transportation rather than the Food for Peace Office and ASCS, Kansas City, the entities that regularly deal with freight forwarders?

Ms. BLOCH. I think the responsibility was transferred from the Department of Agriculture based on certain reorganization within that Department. And when the responsibility came to AID, in the interests of efficiency all of the shipping responsibilities were centralized in the transportation division.

The CHAIRMAN. But this contract is being rebid, isn't it?

Ms. BLOCH. I'm not certain of the specifics of that contract but I will be happy to provide specifics from the transportation division.

The CHAIRMAN. Well, rather than pursue that, I have further questions about it. Let me file these, and you can just give me a memorandum on it.

Ms. BLOCH. Certainly.

[Written questions from Senator Helms and Ms. Bloch's answers thereto:]

Question. Are you familiar with the awarding of the freight forwarding contract for Title II shipments to Universal Shipping Company? (Award was made last year.)

Answer. Yes, I am generally familiar with the Title II freight forwarding and booking services procurement and the award last year to Universal Shipping Com-

pany. I was advised of the Technical Evaluation Committee's selection, and was satisfied with the procedures utilized, prior to the formal contract award.

Question. Why was this contract bid out of the AID Office of Transportation rather than the Food for Peace Office and ASCS—Kansas City, the entities which regularly deal with freight forwarders?

Answer. The Grace Commission recommended that the transportation element of the Title II bilateral program be removed from USDA and assigned to AID. It would have been inconsistent with this recommendation for AID to contract through the Agricultural Stabilization and Conservation Service/Kansas City (ASCS/KC) which had previous responsibility for the freight forwarding function of the bilateral program. That office was consulted, however, and did provide valuable advice in development of the Request for Proposals (RFP). In addition a member of ASCS/W was on the Technical Evaluation Committee. Moreover, freight forwarding is only one aspect of the contract. Of equal importance is the booking and chartering function which was previously performed by USDA's Ocean Transportation Division, now defunct. The RFP for this procurement was issued by an AID Contracting Officer in AID's Office of Procurement. While AID's Food for Peace Office has overall responsibility for the Title II program, AID has its own Transportation Division which has responsibility for overseeing the shipment of both AID and Title II cargoes.

Question. I understand that this contract is being rebid. Why is this necessary?

Answer. The contract was awarded last year for a one year period with options for the Government to extend for an additional period. Such options are declared only if the Contracting Officer can be assured that the best interests of the Government are served. While AID has been satisfied with the performance of Universal Shipping Company over the past year, it could not be firmly established that other interested and qualified freight forwarder/charter brokers could not perform an equal or better job for the Government. Accordingly, AID decided not to exercise the option and issued a new solicitation for the required services.

Question. The GAO analyzed the first bidding and found certain "deficiencies in [illegible]on" such as different criteria being applied to the different bidders. In light of the errors made by your office of transportation, and the natural animosity they must have toward those parties which initiated the GAO study do you think it is fair for them to make the new evaluations? Would it not be fairer to operate the bidding through your Food for Peace offices instead?

Answer. The GAO did identify two elements which it considered deficiencies in the selection of the contractor; however, it did not overturn the award. These "deficiencies" were discussed in detail in AID's response to the GAO dated November 27, 1985 (copy attached), and I am convinced that the Agency conducted the procurement fairly and effectively. The Technical Evaluation Committee included representatives from the Office of the General Counsel and ASCS/W as well as the Transportation Division of the Office of Procurement. In addition, representation from the Food for Peace Office was requested last year; however, workload demands as a result of the African drought crisis precluded FFP participation. FFP representation will again be requested for the new TEC. The rest of the evaluation panel will consist of technically qualified and impartial individuals who did not participate in last year's evaluation. Contract award is made by a Contracting Officer in the Office of Procurement, and not by the Transportation Division of the Food for Peace Office.

AGENCY FOR INTERNATIONAL DEVELOPMENT,
Washington, DC, November 27, 1985.

MILTON J. SOCOLAR,
General Counsel, the Comptroller General of the United States, Washington, DC

DEAR MR. SOCOLAR: In your letter dated October 16, 1985 you dismissed all protests concerning the award of a contract for freight forwarding and booking services pursuant to RFP No. AID/OTR-85-004. Nevertheless, in a separate letter to the Honorable Walter B. Jones, also dated October 16, 1985, you expressed concern about the procedures followed in making the award and concluded that a reevaluation of the offers originally received would be appropriate.

For the reasons that follow A.I.D. does not agree with your conclusions. We believe that the procurement was conducted in strict compliance with all applicable statutes, regulations, and sound procurement practices, in a manner that provided no advantage to any offeror.

Your Letter at pages 1-7 fully concurs with A.I.D. in rejecting the numerous protest grounds advanced by the unsuccessful offerors. You note, however, on pages 7-8, three alleged "deficiencies" which "may" have affected the award.

Your first concern was the possibility that only the awardee might have received credit for information contained in its business management proposal. Specifically, you are concerned that the awardee may have received undue advantage if information contained only in its business management proposal were considered while in other respects and for all other offerors the evaluation related only to information included with the technical proposals. This concern is unfounded for a number of reasons.

All offerors received c[illegible] it for the same documents. Each offeror received credit for its technical proposal, and each offeror received credit for its questionnaire. The Technical Evaluation Committee (TEC) did not consider and therefore gave no one credit for a business management proposal.

Misunderstandings apparently have arisen because the awardee's questionnaire was attached to its business management proposal. The RFP did not state whether the questionnaire was to be attached to the technical proposal or to the business management proposal. The questionnaire was a separate submission distinct from the technical proposal and the business management proposal. In the course of conducting the technical evaluation, the TEC noticed that the awardee's questionnaire was missing. The TEC's request to the Contracting Officer (CO) to attempt to locate the questionnaire, and its subsequent consideration of this document, were reasonable and fully consistent with the evaluation of offers on a fair and equal basis. The fact that the awardee's questionnaire was attached to its business management proposal did not prevent it from being considered by the TEC.

Your letter erroneously characterizes the TEC's evaluation of awardee's questionnaire as an evaluation of awardee's business management proposal. The TEC did not evaluate awardee's business management proposal, nor did it ever see this proposal. As stated above, the questionnaire was not a part of either the business management proposal or the technical proposal. Accordingly, consideration of that document, conducted to the same extent as for all other offerers, did not provide any undue advantage to the awardee.

Your second concern is the fact that the A.I.D. TEC did not inquire of each offerors the reasons for its failure to submit a list of business affiliations with its technical proposal. This omission is contrasted to the TEC's inquiry to the CO about the awardee's questionnaire. A.I.D. believes that the TEC's actions were entirely appropriate and reasonable under the circumstances and the specific provisions of the RFP.

The questionnaire and the list of business affiliations were two distinct matters. The questionnaire was merely required to be returned "with the formal offer". Consequently the TEC considered it appropriate to inquire of the CO whether the omission of the document from the documents being considered by the TEC was deliberate or inadvertent.

Unlike the questionnaire, however, the list of business affiliations was a document specifically required by the RFP to be attached to the technical proposal. All offerors were on notice of this requirement and all offerors were held to it. No list of business affiliations was considered by the TEC unless it was submitted as part of the technical proposal as required by the RFP. The TEC did not inquire of the CO about this omission in order to remain within the terms of the RFP.

We note that in fact the awardee, Universal Shipping, did not receive points for its listing of business affiliations. Both Universal and D.F. Young, Inc. ("Young") incorrectly placed the listing of business affiliations in the business management proposal and neither received any points. Moreover, we have reviewed the business affiliations listings of both firms and they are comparable. If we were to award additional points to Universal and Young they would both receive the maximum score and, therefore, there would be no change in their scores relative to each other or in their positions relative to the other offerors in the competitive range.

Your final concern is an allegation that offerors were evaluated on the basis of a factor not enumerated in the RFP, specifically the availability of an overseas intelligence network. You are correct in stating that this factor was not a specific evaluation factor. However, it is not correct to draw from this a conclusion that those offerors not featuring such a capability were evaluated on an unequal basis.

The first point is that the overseas network capability, while not required in the RFP as a specific evaluation factor, was clearly relevant to other factors that were specifically provided in the RFP. Overseas capability is relevant to Program Management, in particular the "delivery" of donated commodities abroad. All offerors were on notice of the desirability of discharge port capability. It is specifically stated in the Questions and Answers accompanying the Amendment No. 1 to the RFP that delivery requirements would vary with the terms of booking, and that the contrac-

tor would be responsible for monitoring all shipments and coordinating any diversions.

Many of the offers received, including all of the offers in the competitive range other than that of protester D.F. Young, contained extensive references to overseas networks. The large majority of all offerors understood the Title II program well enough to point out the availability of such networks as part of their Project Management capability. Although the RFP did not establish the existence of foreign offices or agents as a specific factor for evaluation, it did not exclude any consideration of the factor for those whose understanding of the program led them to mention it. To the extent it was evaluated, it was merely a minor subfactor relating to Program Management, i.e., "efficient delivery services."

For the foregoing reasons, A.I.D. feels that the actions of its TEC panel were reasonable under the circumstances and under the terms of the RFP. In view of this analysis, the Agency has decided that continued performance of the present contract as originally awarded is appropriate and declines to follow the recommendation of the GAO to reevaluate the offers submitted.

Sincerely,

HOWARD M. FRY.

Question. Would you be amenable to having the ASCS Kansas City Office (which has experience with freight-forwarders) participate in the evaluation of bids?

Answer. As was the case last year, we have solicited the views of ASCS/KC and incorporated them in the Request for Proposals. We would welcome their representation on the Technical Evaluation Committee, and have informally requested their participation.

Question. I understand further that under the new bidding process, the Office of Transportation is prohibiting bids from firms that do not have offices in Washington, D.C. Why the bias against those outside the beltway?

Answer. All cargo booking and chartering arrangements made by the contractor are subject to the formal approval of the Agency Contracting Officer. The time constraints and the documentation required in this process requires the the contractor be located in the greater Washington, D.C. area. The Request for Proposals does not require that the successful contractor must have an existing office in the Washington area, only that he will establish one if he is the successful bidder.

The CHAIRMAN. Mr. Nalen, even though you haven't testified, I've got a quick series of questions, if I may ask you to indulge me.

What percentage of OPIC's operations are undertaken directly with the private sector?

Mr. NALEN. We require no appropriations from Congress; we are self-sustaining.

The CHAIRMAN. What percentage of OPIC's operations are undertaken directly with the private sector?

Mr. NALEN. All of our operations are undertaken with the private sector.

The CHAIRMAN. All of them. Now, the testimony that you have prepared discusses your agency's administration of the old Cooley loan funds. What can you tell us about the personnel who carry out this function? Are they career civil servants? How are they trained for work in the field, and that sort of thing?

Mr. NALEN. Well, OPIC is a little unique in that respect in that almost three-quarters of our people have come directly from the private sector. We have a statistic that probably a private company wouldn't be very proud of, but our turnover is about 18 percent a year versus, I would guess, most Government agencies at about 3 percent a year. We consider that good because people come to OPIC for the experience, because of their business skills, and they move on into the private sector shortly thereafter—the average stay is about 5 years.

So because we do most of our business directly with the private sector, we administer those programs with private sector people.

The CHAIRMAN. And the training?

Mr. NALEN. The training. I would say almost three-quarters of our people have advanced degrees, MBA's or lawyers, that nature.

The CHAIRMAN. You are familiar with the section 108 program in the farm bill of 1985?

Mr. NALEN. Yes, sir.

The CHAIRMAN. Under the draft guidelines for this program, what would be OPIC's role in the administration of the program?

Mr. NALEN. Well, when I say I am familiar with it, I must confess I don't know what OPIC's role is—that has not been defined to us. We are prepared to play any role that anyone wants us to play. I don't know how to answer that question other than that.

The CHAIRMAN. I understand. But if the President or the Congress, or both, were to instruct you to implement this program, how would you operate it?

Mr. NALEN. I think we would operate it just exactly the way we operate our current programs, which is a project-by-project basis—each project stands on its own merits as to its business viability. We would deal directly with business individuals and we would monitor the project once the money was lent to it. That's how we would operate.

The CHAIRMAN. How much is annually appropriated for your agency's operation?

Mr. NALEN. We have no appropriations.

The CHAIRMAN. No appropriations. If OPIC was not allowed to administer section 108 funds on its own, but rather would be required to run all of its proposals through what they call country teams, what would this do to your effectiveness in dealing with the private sector?

Mr. NALEN. That's a difficult question. I am not sure I really understand how the country team organization would work, but I think I would answer that question by saying we don't operate through teams now; we deal pretty directly, as a private business operation would and I cannot help but wonder whether working through teams is going to have a positive or negative impact on our ability to be responsive to projects and individual lenders.

And I think that is one of our assets, to be able to be flexible and to be responsive in a rapid way, which businessmen have come to expect.

The CHAIRMAN. I'd like to discuss that further with you, either in person or by correspondence. I want to amplify that a little bit.

Mr. NALEN. In all fairness, I must say I don't know how the team works and perhaps OPIC would be part of the team—I don't know.

The CHAIRMAN. Neither do I. Now for Ms. Bloch and Mr. Wallis.

It seems to me—and I may be wrong; if I am, correct me—it seems to me that a small amount of section 108 given to OPIC can go a long way toward promoting private enterprise development.

Would each of you support allowing OPIC directly to administer a portion of section 108 programs independent of the country teams?

Secretary WALLIS. I would support fairly strongly having OPIC involved as fully as is practical. Those guidelines are being worked out, and one of the problems apparently, or one of the factors that has to be taken into account, is that OPIC does not maintain a

worldwide system of offices and officers on the spot who would have the familiarity with the local situation.

On the other hand, I have the feeling that when you come to pick appropriate private enterprises, you have a little bit the problem that a layman has in picking a doctor—it takes a good doctor to know who is a good doctor, and it's not necessarily the personality that impresses the patient; it takes one to know one, so to speak. And OPIC has the kind of people that Mr. Nalen just described whose experience is with private business, private industry, and I would have a lot of confidence in their ability to know one, and somewhat more confidence in their ability than that of a lifelong bureaucrat who is very good at his work, but it's different.

The CHAIRMAN. But you would favor it?

Secretary WALLIS. Yes, definitely, in principle. The practical problems have to be worked out, because OPIC officials are not stationed all over the world the way State Department and AID officials are.

Ms. BLOCH. Mr. Chairman, I think that Peter McPherson, being the chairman of the OPIC Board, would like very much to work with OPIC, and to make it possible for OPIC to participate as fully as possible under the 108 program.

I think in terms of what you are suggesting, it might constitute a set-aside. And, as you know, the administration is basically opposed to any kind of set-asides. We could work within the confines, however, of the interagency process to work out something with OPIC.

The problem that we have with set-asides, of course, is that if it begins with OPIC, then the question will be: Where does it end?

The CHAIRMAN. President Reagan has at the Cabinet table right before him a little mechanism that says "Yes," and you twist it and it says "No," and you twist it and it says "Maybe." So you have said "Maybe."

Secretary AMSTUTZ. May I comment, Mr. Chairman?

The CHAIRMAN. Yes, sir, I appreciate your doing so.

Secretary AMSTUTZ. Mr. Chairman, there has been a lot of confusion about this, and I have reflected at length trying to figure out where we have all gone astray in communicating, because I think it's a communication problem.

First, let me try to define some terms. The reason for the country-team concept in basic decisionmaking, allocating of basic funds, was principally to avoid a bureaucratic monster being created here in Washington to administer the program. Our desire was to have decisionmaking made in those areas where the funds were going to be spent.

It is the intent of all of the agencies of the executive branch to employ in this process the best resources that are available to us, and there is no resource that is higher on that list than OPIC. Where they have the capability and the desire, we want to use them.

And in this process of bringing forth proposals for financial intermediaries—and that is basically what we are talking here technically—really all they have to do is, if they have an interest in the Philippines, for example, is just make known to that team process that they have an interest in so much money for the Philippines, and that fits right into the hopper.

I cannot conceive, as this program goes ahead, that we won't utilize OPIC to an optimum extent.

But we didn't want to create a bureaucratic monster back here, where people in Washington, who are unaware of situations in all of these eligible countries, were by and large making decisions on allocation of funds. We want to bring it as close to where the funds are being invested as possible, and we want to draw on all the spectrum of the private sector in those countries for involvement.

The CHAIRMAN. Well, I thank you.

Senator MELCHER. Mr. Chairman, will you yield on that point?

The CHAIRMAN. Sure.

Senator MELCHER. All we are hearing on the drafting of these regulations is that the State Department wins again. It was our thought that Foreign Agricultural Service would have a meaningful part and perhaps have the dominant part in establishing what we refer to as section 108. We don't want any extra bureaucracy. If anything we would give you a couple of more men or women to put out in Foreign Agricultural Service.

I don't object to OPIC. But in cases where economic redevelopment loans would be given to agriculture, who's better at saying what might be wise, to the extent we ought to say anything, than the Foreign Agricultural Service?

Secretary AMSTUTZ. And the Foreign Agricultural Service is heavily involved in all these countries.

Senator MELCHER. I'm concered that once they feed it into that country team it will be delayed just as long as we have been delayed in getting these regulations out, which is 6 months.

Secretary AMSTUTZ. I should clarify country team. Country teams are the senior officers in the embassy of the economics agencies of government, so wherever we have an attaché——

Senator MELCHER. We should get out of this redtape.

We should not mire ourselves deeper in it.

You get into the hold of the State Department and they never want to let go.

Secretary AMSTUTZ. Well, Senator, I understand your concerns. I really think this is going to work.

Senator MELCHER. When?

Secretary AMSTUTZ. My hope is we will have some of these out this year.

Senator MELCHER. We are a billion dollars short per month in the broad array of these programs, and when you say you are going to have some of them out, I suspect you are speaking of only a small amount. We have already bought and paid for surplus commodities. It's setting in surplus. We are paying the storage on it. It's off-budget. You could be moving at that rate, $1 billion a month in 416 and 108—1111, if you prefer to call it that—and Food for Progress.

Why we are not doing it, I don't know.

Secretary AMSTUTZ. Well, Senator, I will just make a statement. I think you are going to find that this does work. It takes awhile to get these things in place.

Senator MELCHER. We know it will work—that's why we put it in the bill.

The CHAIRMAN. Mr. Chairman, thank you very much, and my thanks to all of you.

Senator MELCHER. Thank you.

Senator BOSCHWITZ. Mr. Nalen, we will turn to you for your statement.

STATEMENT OF HON. CRAIG A. NALEN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, OVERSEAS PRIVATE INVESTMENT CORP.

Mr. NALEN. Thank you, Mr. Chairman. First of all, let me say to all the members of the subcommittee, that we are pleased to be able to participate this morning. In response to your invitation, we have already submitted written testimony, and I will not take a lot of this committee's time describing OPIC's insurance and financial programs.[1] I am sure all of you, and particularly Senators Boschwitz and Helms, who happen to be members of our authorizing committee on the Senate Foreign Relations Committee, are reasonably familiar with OPIC's activities, and its insurance and finance programs.

However, with the focus on the Food Aid Program, let me say just a few words about OPIC's finance activities, which have direct bearing on that Food Aid Program.

OPIC, as you know, has a finance program, it's in place. OPIC has an organization of professional men and women consisting of seasoned individuals who have extensive experience in administering financial programs in Third World countries with an emphasis on project financing, involving private sector businessmen and their projects.

I can't resist referring back to Senator Boschwitz' audiovisual aid over there, which shows Minnesota wheat packaged by a private company. Almost certainly that wheat was unloaded, stored, and then transshipped from again another private facility in Port Sudan, which happens to be an OPIC project, one whose raison d'etre has come from a direct loan from OPIC. That's a Louisiana company called Arkel International.

With respect to this hearing, however, and its focus on local currency loans, OPIC has an 11-year record of specifically administering finance programs using local currencies. The testimony we submitted covers this local currency program—and by local currency program I am referring to the so-called Cooley loan program in Pakistan where OPIC has administered some $25 million in direct loans over the past 11 years. Using financial intermediaries and using local rupees, OPIC has reviewed dozens of projects and actually launched 13, with a heavy emphasis on agribusiness projects. In fact, I think about half of them have been agribusiness projects in Pakistan. But they do range on to assembly operations, light manufacturing, and a number of pharmaceutical activities.

In short, I think the record speaks for itself. OPIC is somewhat of an unusual Government entity in that we have had considerable success in administering two business programs, insurance and finance. And I might add that we have done so on a profitable basis as well. As I am sure you already know, OPIC operates on a self-

[1] See p. 120 for the prepared statement of Mr. Nalen.

sustaining basis, and we actually made more than $100 million last year.

I guess I say all this somewhat immodestly, but the fact is the organization takes considerable pride in its reputation of being a business-like responsive agency. And I think I will leave it at that, and I will be pleased to answer any additional questions that any of you might have this morning.

Senator BOSCHWITZ. Well, thank you. We will put your entire statement in the record, Mr. Nalen, and indeed much of it has been alluded to by the other witnesses.

I wanted to ask about the early warning programs that have been initiated. And I believe it involves the Department of Agriculture, also the Department of Commerce or Department of State, or both—and how that is proceeding. It's my understanding that there is either misunderstanding or differences of opinion with AID, and whether or not that is being worked out, and how the whole program of early warning with respect to hunger is proceeding.

Secretary AMSTUTZ. We really have at our disposal now three mechanisms in this early warning complex. Two of them are U.S. Government and one of them is the Food and Agriculture Organization of the United Nations.

In the U.S. Government, there are two of these—one is heavily weather-oriented, satellite monitoring of conditions around the world; and the other is a combination of economic analysis, on-ground analysis, and is spearheaded by the Economic Research Service of the Department of Agriculture. And they are reporting quarterly, more often when and if needed.

And it's our judgment that a combination of these three tools—the Food and Agriculture Organization and its own analyses and reports, and this weather-oriented monitoring which gives a macro kind of a picture, and the more detailed analysis spearheaded by the Economic Research Service of the USDA, with assistance from other agencies of Government—is providing us with good tools.

Senator BOSCHWITZ. I wonder if Ms. Bloch would talk about whether or not there is some misunderstanding between AID and the other agencies of Government with respect to this program.

Ms. BLOCH. I'm not aware of any misunderstandings or disagreements. In fact, from our lessons-learned exercise on the Africa famine, we would say that early warning, or providing better information for preplanning in anticipation of famines, is probably one of the most important areas we have to followup on.

And AID Administrator, Peter McPherson, is committed to doing so, and spoke to that topic at the World Food Program Conference just about a month ago.

As Under Secretary Amstutz has said, there are these three levels of activity, one at the multilateral agency level with the Food and Agriculture Organization; the other one would have to do with our NOAA, LANDSAT and satellite data; and, of course, another one would be the Economic Research Service at the USDA.

But I would also like to say that we have, I think, gone quite far in pursuing or rather in improving how the United States can get a better handle on early warning in terms of famine situations.

In fact, it was almost 2 years ago that the President's Third World hunger study announced a new initiative, the formation of

an interagency food aid analysis working group to improve the way we monitor and provide early warning within the U.S. Government of extreme food-need situations. USDA-ERS chairs that working group, and AID's role is to provide field information.

In addition, the USDA produces what is known as the FNA, the food needs availability report, and that has been strengthened by the input of current field information—ground truthing is what we call it—from AID. The annual report is now updated quarterly to reflect the significant changes that can happen throughout the year.

At AID we have been testing a methodology for field assessment of a country's food deficit. That methodology will be further reviewed, and in fact, we are holding a workshop in September in order to train African participants on the uses of this methodology. We feel that no matter how many improvements we make in this area at, let's say, the international or even at the Washington level, nothing will be accomplished without capabilities on the ground. All told, we are cooperating with all the other agencies.

In addition, we are using innovative satellite data in conjunction with country socioeconomic data to provide early warning of famine that goes beyond just indicators of food needs.

Senator BOSCHWITZ. Secretary Amstutz, do you find the coordination between AID and your Department to be satisfactory, and to be proceeding along in a well-oiled fashion?

Secretary AMSTUTZ. I should have mentioned that when I spoke earlier, Mr. Chairman.

I am aware of no fundamental problems. At times, as various analysts works on a situation, there are differences of opinion that have to be resolved—and I am surely aware of those—but that, by and large, is a healthy situation. And I think there is always room for improvement in how well things work. I think there is a good attitude among the agencies involved in this process and that we have to continually strive to improve it.

I might add, on a tangential nature, that what we plead for around the world in this area is more donor coordination. And if there is a chronic area of problem, it's donor coordination among the various countries working on food aid. And we are committed to try to create a better climate for that as well.

Senator BOSCHWITZ. I am told that in the testimony that was originally submitted that AID suggested that there be some privatization of these functions, and that that, however, was not included in the testimony, is that correct, that was presented today? So in the event that there is some difficulty existing, interagency difficulties, I hope that you will come to us so that we can respond and perhaps do what's necessary to remove those difficulties.

Secretary AMSTUTZ. Indeed, I will look into it as soon as the hearing is over.

Senator BOSCHWITZ. Ms. Bloch, you spoke in your testimony about the fact that we can stand tall as Americans because of the food aid that we have given, and that there was great complexity, logistically and otherwise, with governments and so forth, even governments that didn't appreciate, as you said, the food aid.

Senator Andrews, while he was here, said that the Russians took some credit for the food aid, and I would like you to comment on

that, perhaps Secretary Wallis, too, or any of the witnesses, if they have some knowledge of that. It's interesting that recently I met in Minnesota a priest who was from Kenya, and he gave the same kind of testimony that you did about the sorghum, that they have chants and sing about Reagan, and that they are very aware of where the food comes from. I'm not quite sure what the bags look like that they receive it in, but that there is a great awareness of it and there is a great deal of goodwill that's been promoted there.

But did the Russians take some credit for some of the deliveries that were made by America?

Ms. BLOCH. I think what Senator Andrews was referring to was Ethiopia. I would like to distinguish U.S. food aid from the food aid provided by other donors, including private organizations.

At the very beginning of the famine, the United States made the decision, because of the Ethiopian Government, that we would channel our food aid to Ethiopia through private and voluntary organizations. Of the over 780,000 metric tons of food provided to that country in 1985 and 1986, all but 50,000 metric tons were channelled through private and voluntary organizations.

The 50,000 metric tons that was provided to the Government was provided in 1985. And under that agreement—it was carefully negotiated, and a monitoring component was negotiated to allow CARE to provide support, as well as accountability.

So we are quite comfortable that our food did not get confused with that of, let's say, the Russians. We have very, very careful accounting through our private voluntary organizations of our food aid.

And I might comment on the bags in your poster, Senator Boschwitz. Those are not official Food for Peace bags. It's much more apparent from our bags that the food is a gift from the United States.

And we are now in the process of trying to improve on the design, so that, as Senator Andrews and a number of other Senators in previous or past hearings have noted, the recipients should be aware by sight that the food is in fact a gift of the people of the United States.

Senator BOSCHWITZ. I would like the other witnesses to comment on that, if you would—and let me just ask a short followup question.

Did the Russians send any food or did they send trucks? I believe they sent some type of vehicles.

Ms. BLOCH. I believe they sent maybe 10,000 metric tons of rice at some point, and that was it. They did send, I think, transportation material.

Secretary WALLIS. With regard to Ethiopia, which is the only place where I've heard of this problem arising at all, I don't have any very explicit direct knowledge, but I have been watching the flow of information every day—newspaper accounts and intelligence accounts. Early on you got these stories about transportation: it was transported in Russian-built vehicles and it was alleged that that was creating the impression among the people that it was Russian grain or food.

Later, though, all of the reports have been of the sort you quoted, that that didn't fool the people at all: they know where it came from.

Senator BOSCHWITZ. There is a great deal of talk about Ethiopia and about moneys being misappropriated, and that moneys from the food was appropriated toward resettlement efforts.

I wonder if you would comment about that, any one of the witnesses.

Ms. BLOCH. I guess, Senator, it's up to me to comment. Again, I would stress that we moved our food through private and voluntary organizations, and we were not going to be party to any resettlement scheme. And we, I think, can account for that.

I would again stress that there has to be a distinction made between U.S. food aid and the food aid provided by other donors and other agencies.

And I would wager that if you ask any recipient country, any agency in the relief business, they would tell you that the U.S. accountability requirements, and procedures are tougher than anybody else's. I would wager it, because in the past, our stricter standards have been held up for criticism, if not vilification, sometimes, as a point that we are not as compassionate as others.

But we have always believed that in havimg those strict standards, in the long run we are better served and so are the recipients.

Senator BOSCHWITZ. Secretary Amstutz, what money remains to be obligated out of fiscal year 1986 Public Law 480 appropriations, do you know that figure? And do you intend to obligate the full amount?

Secretary AMSTUTZ. I believe the current figures are about $14 million in the title I account, and $66 million in the title II account, for a total of about $80 million in each of those; in other words, a total of $80 million in all of the Public Law 480 accounts. No final decisions have been made on the disposition of these funds at this time.

We are convening another meeting of the Food Aid Subcommittee to look into these matters.

Senator BOSCHWITZ. Do you intend to obligate these funds this year, this fiscal year?

Secretary AMSTUTZ. Well, most certainly the funds will be obligated.

Senator BOSCHWITZ. If not in this fiscal year, they will be——

Secretary AMSTUTZ. No, that's the problem with Public Law 480, and that also creates some confusion. It's on a rather strict annual basis.

And so what is appropriated for the current year is either used in the current year—or not used. And then we start all over again in the next fiscal year. That creates some problems, incidentally, Senator, in that in some of our programs, by necessity the programs have to have a longer duration, and we have no problem with doing that, but the appropriation process has to happen on an annualized fiscal year basis.

Senator BOSCHWITZ. This year 60 percent of cargo is required to go on American bottoms, as the cargo preference requirement has been raised, as you know.

What is the added cost of that, and is the Department of Transportation indeed picking up 50 percent of the increased costs?

Secretary AMSTUTZ. I don't have an accurate added-cost figure right now, and my staff doesn't have—we will send it up to you.

Senator BOSCHWITZ. She normally knows everything.

Secretary AMSTUTZ. I understand; you see where I automatically turn.

Senator BOSCHWITZ. Would you send that to me?

Secretary AMSTUTZ. Yes, we will.

Senator BOSCHWITZ. And whether or not the Department of Transportation is paying 50 percent of those costs that are above the amount that would otherwise have been incurred.

Secretary AMSTUTZ. On that score we have had numerous meetings with the Department of Transportation in an ongoing effort to work out the manner in which this transfer of funds will take place. As so often happens, it gets more complicated than reasonable people would expect.

But I have no reason to believe that this transfer of funds will not take place, as of right now.

Senator BOSCHWITZ. Ms. Bloch, am I correct in saying that the Sudan looks like it's going to be an area this year rather than Ethiopia where the situation looks somewhat more promising, that Sudan is going to be a problem country, an area of great need this year?

Ms. BLOCH. Sudan has been identified as one of the African countries continuing to be in serious need of foodstuffs.

The problem in Sudan, however, is somewhat different in that they have surpluses of over 1 million tons in grains. But the problem is they can't transport it from one region of the country to another.

In addition, Sudan is suffering from the locust problem. In fact, AID has already committed $1 million to that problem, and we are watching the situation very carefully. The impact on food production probably would not be felt immediately. We are getting reports, for example, that farmers are watching to see what kind of locust-prevention programs the Government is going to establish before planting this year.

So we are watching it very, very carefully.

Senator BOSCHWITZ. That must present also some other problems because of the difficulty between north and southern Sudan, which actually has been going on for 30 or 35 years.

Ms. BLOCH. Exactly. It's a serious problem. Unfortunately, it is not a problem that food aid can address very easily, because, as I said earlier, Sudan has the food; the problem is they don't have the food in the right places.

Senator BOSCHWITZ. Senator Melcher, do you have some questions?

Senator MELCHER. Yes, I do, and thank you, Mr. Chairman.

I think it's worth pointing out that the United States is not meeting either the needs within these 69 developing countries by providing adequate food supplies nor are we meeting our needs here in the United States to utilize this huge abundance and handle this surplus in such a way that it is advantageous for our producers and agribusiness, and for the entire economy.

We are not talking about huge commercial sales or even necessarily small commercial sales. What we are talking about is the sales that are made to these 69 developing countries through one of our programs where the terms are such that the interest rate or

the price is reduced—and beyond that we are talking about donations through one of these programs, where it's an outright gift.

It's worth noting that what's on budget is small, while what's off budget is huge, because we have already paid for and the United States owns these surpluses of wheat and corn and sorghum and milk.

So the bulk of the programs that we are talking about have absolutely no impact on the budget. They are not counted. They are not scored by CBO or Office of Management and Budget as having budgetary impact. We've got 416; we've got section 1111—or, if we want to call it what most of us on this committee call it, section 108—we've got Food for Progress; we've got several others—all off budget.

What we are talking about in these programs is additionality, is it not?

Secretary AMSTUTZ. That is certainly a key consideration, as you and I have discussed frequently. Or, more properly stated, the term I would rather use, is "displacement."

Senator MELCHER. I understand them to be in some respects opposites.

Secretary AMSTUTZ. That's why I'd prefer to use the term "displacement."

Senator MELCHER. Let's talk about additionality, then. Is that not what can be utilized wisely for adequate nutrition within 1 of these 69 countries?

And that then is not displacement of anything?

Secretary AMSTUTZ. Well, in large part, Senator, this depends on the view of the recipient nation as well.

Senator MELCHER. Absolutely.

Secretary AMSTUTZ. Senator Boschwitz alluded to this in his opening statement. And if you would ask similar questions of many of the leaders of the private volunteer organizations, you would hear the same thing from them.

Senator MELCHER. Absolutely.

Secretary AMSTUTZ. And there is a strong desire—and I see a growing desire among the nations themselves—in addressing this gap between subsistence needs and desired nutritional adequacy levels, in filling that gap consistent with the ability to pay of those countries. They are afraid of programs that will result in economic disincentives in their countries. That's why the thrust is so much on developmental assistance, and that's one reason we are excited about the local currency program particularly, because we see a growing agreement around the world, not only of the Congress here, but of the recipient countries, that developmental assistance is the desired approach.

Senator MELCHER. Are you aware that almost all applications for 416 to be monetized for this development, that is, selling donated food on the local market to generate the cash, to put out small loans for economic redevelopment are denied? Are you aware that the monetization regulations are unacceptable to many of the PVO's and that most of these 69 countries have never been even aware that they are entitled to make such application?

Secretary AMSTUTZ. I'm not aware of that; I'm aware, as I said in my——

Senator MELCHER. Well, can you name me the countries that are aware and have made such application? Because just as God made green apples, you offer a country an opportunity to apply for a program where they decide what additionality they can have and they can get the donation and monetize that, and use those funds for economic development and they'll do it.

Secretary AMSTUTZ. As I say, I am not aware of this lack of knowledge. I am aware of this displacement factor.

Senator MELCHER. Are you aware that the State Department has told a number of countries that 416 is not available to be monetized?

Secretary AMSTUTZ. I think that's incorrect, because I think the contrary is true, that countries have been told on what bases we will consider monetization, and among these is help in the distribution effort—I think principally in that area, but I don't deny the fact that we analyzed this displacement factor.

Senator MELCHER. You already said it's up to the recipient country.

Secretary AMSTUTZ. No, I said in part their own desires as to whether additionality is created is up to policies of the country.

Senator MELCHER. Absolutely.

Secretary AMSTUTZ. There can be additionality and there can be displacement.

Senator MELCHER. You earlier mentioned the Philippines. The Philippines is one of those countries which has been told that 416 is not available to them, and that, furthermore, it canmot be monetized.

Now, you are not aware of that. That's a problem that you have, Mr. Secretary; you should be talking to your Foreign Agricultural Service employee there, and he will tell you that up until April and May of this year they were told that 416 was not available.

Secretary AMSTUTZ. I think he must have misunderstood, because we are actively at work in the Philippines on this 416. Actually we are working harder there on this 416 subject than any other country I can think of.

Senator MELCHER. If you were working harder there, we would have a 416 program in place. In any case that's only one country and there are 68 others to be looked at to see whether it won't work there.

Monetization with 416 probably will become unattractive, and won't work because you've got too much red tape with it. You can talk to private voluntary organizations. You can talk to companies like Cargill. All of these exporters that are very active and the PVO's will tell you. You've been too slow; you've been too late; and it's too complicated.

It has to be untangled or you are never going to reach any kind of utilization of these programs. They have been around here now long enough to be widely used, and you are not even off the launching pad yet.

Section 108 will get outside the Government and will involve private individuals. Yet we have had this discussion about the final development of whatever regulations you are going to have. You still discuss whether OPIC can handle it or somebody else can

handle it such as the country team. This all adds up to my wondering whether it's ever going to come into being.

Is this a program that could be utilized in at least half of the 69 countries?

Secretary AMSTUTZ. The key is whether they are title I countries, that's No. 1, because that's the source of the funds.

Senator MELCHER. For section 108?

Secretary AMSTUTZ. Well, yes, by and large it is. We can channel the wherewithal—there is misunderstanding about this, too, and I'm going to try to be clear—we can channel the wherewithal either via 416 or title I of Public Law 480.

Senator MELCHER. Section 416 is off budget. Which one do you want to use?

Secretary AMSTUTZ. That's the source of the supply, so to speak.

But the funds generated—the local currency funds generated, which in the final analysis are the catalyst for this program, are generated via the title I programs, so by and large these have to be title I countries. Having said that, the list of title I countries that are so eligible—the Philippines is a classic example: they are clearly eligible, and, as I think I've said here today, I expect us to have local currency programs operative there. The key then is the attitude of the host country on the subject of private investment—that's key. That's written into the law.

My hope is—I'm excited about this program—my hope is—and I think I've said this earlier today—I sense around the world a growing awareness of the importance of the private sector in being a stimulant for real economic growth, and to the extent that I am correct on that assumption, that we have this growing acceptance of this, the list of local currency countries is going to be quite large as time goes by.

Senator MELCHER. You said use title I for the list.

Secretary AMSTUTZ. I don't know how many of the 69 countries are title I right now.

STAFF. Thirty-two.

Secretary AMSTUTZ. Thirty-two of them are title I.

Senator MELCHER. Thirty-two of them are title I countries. If you think that's an impediment, we will make more of them title I countries.

Secretary AMSTUTZ. I don't think it is.

Senator MELCHER. I don't think it is either. And I think title I countries only signifies the average income, is that not right? What else is it there for? What is that list supposed to do, separate those out with below-average per capita income, so you can determine who needs it most?

Ms. BLOCH. Senator, those are the countries that now have title I programs.

Senator MELCHER. That's what I'm saying. What is the title I list for? Only to establish which ones have the lowest per capita income?

Secretary AMSTUTZ. No. Title I, as opposed to title II—title II where they really don't have an ability to pay.

Senator MELCHER. What I'm saying is that if you have some little glitch in one of these programs that you need corrected, all you

have to do is name the glitch, and we will correct it, because we want these programs to be used.

Do you think most of those 32 countries can use a 108 program?

Secretary AMSTUTZ. The key again is their own attitude about private sector——

Senator MELCHER. We've covered that. What's your judgment?

Secretary AMSTUTZ. You are asking me to make a judgment on the politics in some of these countries, but to the extent there is this willingness to recognize the importance of the role of the private sector. I would hope one day they are all involved in the program.

Senator MELCHER. I hope so, too. I hope it comes soon. This term "standing tall," Julia—Reagan sorghum. I'll tell you who ought to stand tall about our aid to Africa: the people that produced this food and sold it rather cheaply, that are going broke. They ought to stand pretty tall.

Ms. BLOCH. I couldn't agree with you more.

Senator MELCHER. Also the people in the private voluntary organizations who are out there on little or nothing making it work.

Ms. BLOCH. I agree.

Senator MELCHER. Both of them were way ahead of when the State Department and AID got around to approving these programs.

So thank God you finally did approve it, but it sure took a long time. Those people out there in those private voluntary organizations were waiting to help the people who were starving.

I think we can do a whole lot better, and I think the Department of State is going to have to stand accountable for what you have been doing during the past 2 years and to what it has culminated: this catastrophe of the dwindling agricultural export policy that is just wracking this country economically.

Thank you very much.

Senator BOSCHWITZ. Thank you, Senator. I would just like to comment that, as a member of the Foreign Relations Committee, I most often find that the countries most aware of the various programs and seek to take advantage of them—when you talk about the 69 countries, I am sure that some of them come under the aegis of the subcommittee that I chair—they often are in my office, and sometimes as a matter of fact better informed about the various programs than I or even my staff. I find that they have a rather broad understanding of how to take advantage of them. Rightfully so, that's what we put them in legislation for; I have no argument with that.

I'd like to ask Secretary Amstutz about the off-budget aspect of some of the 416, for instance, and other programs. First, in the event that it's shipped, I presume that the packaging would be—packaging like this would be an on-budget item, or at least it would come out of CCC coffers; it would have to be resupplied. Also the transportation costs. Also the cargo preference penalties.

It's not clear to me what kind of reflows the CBO has scored with respect to CCC assets, and if those CCC assets cease to exist, for one reason or another, if the CBO would score the reflows somewhat differently or say that there would indeed be a cost in addi-

tion to the cost of packaging and transportation, cargo preference, et cetera.

Secretary AMSTUTZ. Yes. These by and large re-enter, or enter, the budget flow. You are right on the costs of packaging, processing, transportation. What the Senator was referring to was the basic cost of the commodity, is in a sense off current services budget because it was paid for in a previous current services budget period.

But as we come forth—we, the CCC—comes forth to the Congress for more borrowing authority, it sort of re-enters the current outlay schedule. And in recent years, of course, we have had to come forth rather frequently, and it gets stirred in there. Congress recently voted a $5.3 billion addition to our borrowing authority, and certainly included in it were funds for packaging, processing, transportation of these commodities.

Senator MELCHER. Mr. Secretary, you are certainly aware, under 416, and its use with either 108 or Food for Progress you are entitled to accept payment by the recipient country for any packaging or any incurred cost of shipping. So it's just up to you on whether you want to do that.

Secretary AMSTUTZ. Up to what the circumstances permit.

Senator MELCHER. This brings up a very pertinent point.

Don't you think that the Philippine Government, for example, if they were aware that they could have one-half of a billion dollars' worth of wheat and milk, would quickly make the assessment on whether or not they could stand that within their country? Even if you wanted to charge them for the transportation, they could monetize it so they could have half a billion dollars in pesos, which would be a huge amount of aid from the United States to utilize in their economic recovery. Don't you think that would be attractive to them, to look at and see whether they could absorb that much right on their market, raise that amount of pesos in their money for the start of economic development in that country?

Secretary AMSTUTZ. Well, as I indicated before, Senator, in part it depends on circumstances and——

Senator MELCHER. I'll guarantee you that offer has not been made.

Secretary AMSTUTZ. The 416 proposals before the Philippine Government right now—I looked here in case anybody wants to correct me—are even free of those kinds of——

Senator MELCHER. Are you, Mr. Secretary, under the impression that the State Department has talked to the Philippine Government in those terms, of one-half of a billion dollars' worth?

Secretary AMSTUTZ. Senator, I honestly forget the figures that we've talked——

Ms. BLOCH. It's about $19 million.

Senator MELCHER. $19 million.

Secretary AMSTUTZ. $19 million.

Senator MELCHER. That's a lot different than $500 million.

Now, I'm going to answer the question. The State Department hasn't talked in meaningful amounts of section 416 either to utilize 108 or Food for Progress or Food for Work, or any of these abundance of programs that we have—and I asked Secretary Armacost

yesterday whether they had even thought in those terms. He said, well, no, of course we haven't.

Why not make the offer? Let the Philippine Government make that assessment whether they can absorb it. It would sure help us. It might raise the price of wheat about 20 cents and reduce the budget exposure. The wheat market, instead of continually dropping, might stabilize and start to come up a nickel or so. It might save us $50 million or more in deficiency payments. We won't have to pay so much storage either.

Secretary AMSTUTZ. I haven't talked to Secretary Armacost about this. I have talked with others, in State and other agencies, about the Philippines. Pretty much the Philippines have been told that this Government is very receptive to any and all possibilities of helping that Government and the economy of that country, and we are willing to pursue any number of subjects in this regard.

In no way has this Government been niggardly in the way of making food supplies available.

Senator MELCHER. At the end of May, I offered a small $10 million program for winter wheat. AID very vigorously and violently objected to it and said they wanted to study the matter. That's $10 million.

Ms. BLOCH. Senator Melcher, I tremble at jumping into the fray, but I wonder if I might offer some numbers on what Secretary Amstutz was talking about in terms of displacement in the Philippines. As you know, the Philippines is a very good customer of U.S. wheat. The normal commercial import level for wheat for the Philippines is in the order of 700 to 800 thousand metric tons per year.

The usual marketing requirement, I am told, to be established for the section 416 or title I program for the Philippines, USDA has agreed to a 400,000-metric-ton level in consideration of the new Aquino government. That would already mean a displacement of some 300,000 to 400,000 metric tons in U.S. commercial sales.

And that was done so that we could sign the title I agreement this year, which was signed and is on its way to provide some 300,000 metric tons of wheat to the Philippines.

I think this is one of the dilemmas that we struggle against, and I think that by law we don't want to——

Senator MELCHER. Well, I'll have to correct you. The 700 to 800 thousand metric tons that has already been agreed to, and is signed and sealed and may start to get on the ship pretty soon for the Philippines, is about their normal use.

What we are talking about now is additionality. We can go above that amount because they are very poor. The ordinary person over there can't even afford to buy flour. The question is how much more can they use. I think those problems are best answered by the Philippine Government.

The State Department has no conception of the problem we are in and how much we've in surplus. They are not even talking to such a good friend as the Philippines, particularly under this new Government, whether or not they would like to have monetized on their own market some additional supplies of wheat and milk, none of which they produce. We're simply not doing it, we are not talking about the 700 or 800 thousand they bought in titles I and II.

Senator BOSCHWITZ. Senator, with your permission, I think we had better get on to panel two. It's now approaching 12:15. So we will excuse the first panel, and ask Ms. Carol Brookins, Tom Getman, LaVern Freeh, and Alfred Pollard to come forward.

[Brief recess.]

Senator BOSCHWITZ. We will continue the hearing, and we will apologize to the private-sector witnesses at the outset by saying that we are going to be somewhat constrained timewise and we would ask you to move as quickly as you can through your testimony, though we don't want you to abbreviate it unduly.

All right, Ms. Brookins?

STATEMENT OF CAROL BROOKINS, PRESIDENT, WORLD PERSPECTIVES, INC.

Ms. BROOKINS. Thank you, Mr. Chairman. I have submitted a written statement which I hope will be incorporated into the record in full.[1]

Senator BOSCHWITZ. Yes, it will be.

Ms. BROOKINS. Thank you very much for this opportunity to appear before your subcommittee to assess the food aid provisions of the 1985 Food Security Act.

The act has considerable flexibility and the tools to begin to channel food aid in ways which, if carried out effectively, can help to advance our dual objectives, and I think we have to remember those dual objectives, which are improving the diets of people throughout the world and increasing the development of markets for U.S. agricultural exports.

I have five suggestions which could more fully utilize the benefits of our food aid programs in this regard.

The first would be to increase our total food aid commitment through section 416 and Public Law 480 by raising either funding levels or using inkind commodities.

Second, to provide for multiyear commitments under Public Law 480 and to increase the program's flexibility by not requiring fiscal year deliveries. This is particularly important, given the long timeframe that AID requires in many cases to negotiate agreements, so that many are not even fully negotiated today and it's nearly the end of the fiscal year.

The third would be to incorporate Public Law 480 and section 416 more fully into our overall strategy for economic development and debt management by using expanded food aid to provide financial transfers to recipient countries who are undertaking structural economic reforms.

Fourth, to direct all food aid proceeds in recipient countries to effective private-sector development and capital formation.

And, fifth, to involve U.S. agricultural cooperators and other knowledgeable trade groups directly in U.S. programs which provide funding for economic and agricultural development in the food aid recipient countries. These are the people who understand food systems; these are the people who are our producers, our market-

[1] See p. 124 for the prepared statement of Ms. Brookins.

ers—they understand the way to make it work. And they are not being utilized in the way that they should be.

Food aid today, as in the past, can be an increasingly valuable asset of the U.S. Government in providing the power for economic growth in many developing countries, and these, over time, can build new commercial markets for U.S. agriculture and U.S. industry.

Our problem with exports today is not only that production levels have risen in recent years. We are also in a world where demand growth has slowed because of a number of factors, and one of the most important is low- or negative-income growth in major markets for our agricultural export expansion—the developing countries, or LDC's.

When LDC's have low economic growth rates, this adversely affects purchasing power. And low effective demand, or low purchasing power, today means lower U.S. export potential, although food needs in these countries continue to rise.

There is substantial evidence that import demand for grains or cereals in LDC's is highly elastic with respect to income.

As Secretary Wallis pointed out, I have served since Demember 1984 as chairman of the private advisory committee to the Department of State on food, hunger, and agriculture in developing countries.

A copy of our initial recommendations is attached.

Our task was not to focus on emergency food needs, but on the chronic, long-term, hunger problem. We concluded that the key to developing country food security lies in strengthening domestic purchasing power in areas of the world plagued by chronic hunger. And at a time when foreign assistance resources are increasingly scarce, we believe that it is more important than ever before to target our assistance where it can be used most productively in strengthening the private sector.

In this regard we recommended specifically that the U.S. Government's economic development assistance be administered by a single U.S. development finance institution. This institution could provide investment means and incentives on market terms, encourage private sector investment through risk sharing, and serve as a focal point for our economic development assistance generally.

We have had 40 years of development experience to learn what works and what doesn't. And the record is very clear. History has shown that a country's economic activity expands most rapidly and successfully through the private sector.

A study last year by Mr. Keith Marsden, an adviser at the World Bank, demonstrated a direct, positive relationship between economic growth and an increase in the real rate of growth of private credit in 17 countries in Asia and Africa. In other words, the supply of capital to the private sector is the engine of growth, and the only real engine of growth.

Our Food Aid Program can help serve that objective. Yet there are some estimates that the Public Law 480 authorization for 1987, fiscal year 1987, may be cut by more than 20 percent. It is shocking to think that we would consider cutting back food aid when it is these countries, and the development of these countries as markets

for U.S. agricultural products, which are crucial to American agriculture's future.

Food aid also can become an important vehicle for providing additional short-term capital to countries strapped for hard currency. To be effective, however, the food aid has to be programmed in a coordinated way so that it is directly tied to overall economic adjustment strategy.

I am not saying that we should continue to produce surpluses unjustified by market realities to dump on the developing world at heavy subsidies to our own producers and overseas recipients. However, we are at an unusual point in time today when, because of past domestic and foreign policies, we have built up massive stocks of grain and other commodities that are costly to store and carry. This is occurring at the same time as many food aid recipients need more foreign assistance to help them restructure at a time of severe economic crisis.

Food aid is a popular program and carries wide-ranging support with the American people. We should use it.

In conclusion, Mr. Chairman, we are on the right track, but we have a long way to go. People today were talking about the fact that there aren't as many food problems today in the world. Well, the World Bank disagrees with this. They published a report this year entitled "Poverty and Hunger: Issues and Options for Food Security in the Developing World." It noted that more than one-third of the population living in the developing world—730 million people, this excludes China—still does not eat well enough to lead an active full-day working life. Nearly half of these people are barely subsisting on a minimum survival diet. The numbers of people who are malnourished is increasing.

This report defines food security as providing people an adequate diet, and it states that the main force that can deliver food to people is purchasing power. I can think of no better objective of our own Food Security Act than to act as a vehicle to provide a sustained measure of food security to developing countries.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. I would like if you could get me a copy of the World Bank report, and also the report by Mr. Marsden.

I think I have seen some comments, an article in the Wall Street Journal, about this.

Ms. BROOKINS. Yes.

Senator BOSCHWITZ. I'd like to read that. And I will read your entire testimony. And I'd like to get the World Bank report.

Do you have it?

STAFF. We'll obtain it for you.

Senator BOSCHWITZ. Would you? I understand the necessity of raising people's ability to purchase in order to raise economic standards.

So often I hear and understand that the giving of food in those areas sometimes undermines the local agriculture, even among those areas where there is quite a bit of either undernutrition or malnutrition. Yet the idea of bringing food there, allowing the sale of that food at a price that reverts to the Government so that it may build its infrastructure or build its economy is very appealing.

In your study, did you find that there was an inconsistency or a difficulty there that could be overcome or that led to additional difficulties?

Ms. BROOKINS. Well, there are a number of studies that have been done on the subject, Mr. Chairman, one of them by Joachim von Braun and Barbara Huddleston of IFPRI. They analyzed this issue and they cited studies which show that a number of countries that have received a high amount of food aid over an extended period of time were, to the contrary, very successful in achieving food production growth in that timeframe. In studying a group of 16 countries—and this is in my testimony—which achieved annual growth rates in food production of 3.9 percent between 1961 and 1976, simultaneously they received about 80 percent more food aid per capita than the average food aid recipient country.

I think this is a real fallacy and it's one that's got to be corrected today, because food aid is not bad, it is not negative for a country developing its own agriculture. It is the way that the Government uses the proceeds from the sale of food which determines the effectiveness of the food aid, and additionally I think we found and we learned that a country does not have to be self-sufficient or totally self-reliant in food, particularly when it can only produce food through heavy continued direct subsidies to its agricultural sector. It might be able to produce some other good that it can trade in the open market and import food and still be in much better shape.

Mr. Marsden's study shows that some of the largest importing countries in Asia and Africa of food, and of cereals, were also the fastest growing countries economically of the group.

Senator BOSCHWITZ. I will read that and his study.

Now we turn to Mr. Getman. You are assistant to the president of World Vision.

STATEMENT OF THOMAS GETMAN, ASSISTANT TO THE PRESIDENT, WORLD VISION

Mr. GETMAN. That's correct, Mr. Chairman. Mr. Chairman, World Vision Relief Organization appreciates this opportunity to testify on world hunger and U.S. food aid programs.

And I would be remiss if I did not say thank you, especially to the two of you, Mr. Chairman and Senator Melcher, for the encouragement you've been to World Vision and our sister organizations in the last 18 months.

We are currently involved in development assistance programs in 30 African nations as well as 50 other countries around the world, including the Philippines. The most common question asked about Africa today is whether there is still a great need for food assistance. Since the rains came and the recent growing season permitted fairly favorable crops, this may give the perception that a terrible but temporary episode is passed. As the Washington Post's series on Africa's children points out, nothing could be further from the truth. The need is as great as ever.

As yesterday's article on Zimbabwe indicated, 4 million children die from starvation- and malnutrition-related illnesses in an average year.

Senator BOSCHWITZ. In Zimbabwe?

Mr. GETMAN. No, continentwide. The article yesterday was on Zimbabwe, but the research that was done pointed out that 4 million children a year die of starvation- and malnutrition-related illnesses.

Senator BOSCHWITZ. In Africa.

Mr. GETMAN. In the continent.

Senator BOSCHWITZ. I noted that Zimbabwe had some surplus.

Mr. GETMAN. Right, they are doing better, but still children are starving there, even right next to the grain bins. Even in a good crop year, African nations suffer from widespread chronic malnutrition. Although the donations during the peak of the drought may have staved off mass starvation, the underlying causes and continuous hunger still exist. Despite an encouraging production year, the economies are so poor that commodities and goods cannot be purchased on the market; people cannot buy food, but they need food.

I am not advocating a wholesale giveaway of U.S. surplus stocks to continuously feed African or other nations with pockets of chronically poor and hungry people. Hunger is a developmental problem. Giving food for direct distribution has a role, but only a limited one. We need to use the flexibility provided in the Food for Peace Program to remove the causes of poverty.

African nations, as an example, could still use about the same amount of food they have been receiving under the emergency famine relief. World Vision would be able to make use of the food in nearly all African countries, but only if we could sell it, that is, monetize it, using the generated local currencies for developmental activities.

Food for Peace has always permitted the sale and barter of commodities to support a variety of activities. Last year the Congress reemphasized that such uses are appropriate, plus the Food Security Act of 1985 clearly stated that sales and barter are permissible under section 416, Surplus Commodity Disposal Program.

PVO's and cooperatives have a unique ability to act as intermediaries, receiving the food aid and taking responsibility for its use in country for reforestation, agriculture, health care, and other projects. Right now, if a PVO or a cooperative tries to get a project approved to sell or barter commodities, there are severe restrictions. For instance, in Mozambique, World Vision wanted to monetize food, selling it in urban and other areas where people had money but no commodities. Initially, the administration interagency group would only allow us to directly distribute food to people, not sell it.

Yet if people could afford to buy food, why build dependency, why add disincentive for a local enterprise?

We wanted to use the proceeds from the commodity sales to complement our work development programs im Mozambique aimed at the chronically poor sector. Finally, after months of discussion we were permitted to proceed and sell up to 30 percent of received commodities. However, our sales program was limited to a very few towns.

World Vision has no intention of taking money from those who cannot afford to pay for food. The question our field staff often asks is why are the restrictions placed on PVO and cooperative use of

food aid much more limiting than the restrictions placed on governments that receive food aid. It appears to us that the U.S. Government uses a double standard: On the one hand, it permits unmonitored flexible use of donated commodities by recipient governments; on the other hand, PVO use of commodities is limited and highly regulated.

During the African famine, Americans personally responded to the crisis with an unprecedented outpouring of assistance. Now the glamor is worn off and the funds are down, but the chronic suffering continues. As the cash revenues of PVO's are diminishing, the amount of food aid available for Africa is also significantly decreasing. In fiscal year 1986, still under the emergency food provisions, World Vision will be using 102,000 metric tons of food in Africa; in fiscal year 1987 we are only programmed for 15,000 metric tons of emergency donations and 12,000 metric tons of regular developmental food aid.

We could easily continue to use at least 100,000 metric tons.

During the emergency, the roots of PVO infrastructure and country infrastructure were established in the shallow African soil. Now is the time to help deepen and strengthen this gradual tendril network. PVO's and cooperatives must be allowed to continue to use food aid in these ailing countries. To abandon that which we have so carefully and at such a cost—we've had staff people killed—cultivated will only guarantee the next devastating cycle of famine.

Rather than concentrating on government-to-government giveaways, we encourage you to allow the PVO's and cooperatives to be the intermediaries. In many of these countries the governments do not have the infrastructure or capabilities to transport, process, or distribute food, nor can they use the proceeds generated from commodity sales in a constructive developmental manner.

In the wake of the emergency, there is the opportunity for rehabilitation and recovery. PVO's and cooperatives can work in the communities and towns for better health care, small-scale-private businesses, and improved farming. If the regulatory restrictions and administrative obstacles on sale and barter were relaxed, we would use more food aid in Africa and other developing nations.

Mr. Chairman, I urge you to let USDA and other members of the Food Aid Subcommittee know that Congress supports greater use of food aid in this way. The law permits monetization; it is PVO's and cooperatives who could put the money to good use. We have the opportunity to resist the temptation to be short-term, penny-wise, and long-term pound foolish. In so doing we could build the infrastructure that could save literally millions of lives.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. That was very interesting testimony, Mr. Getman. Maybe we'll continue in a more informal setting and discuss some of those points.

But let me now turn to LaVern Freeh of Land O'Lakes, Inc.—good friend.

Mr. FREEH. Thank you, Mr. Chairman.

Senator BOSCHWITZ. I know that Land O'Lakes has tried a number of these projects.

STATEMENT OF LaVERN FREEH, VICE PRESIDENT, LAND O'LAKES, MINNEAPOLIS, MN

Mr. FREEH. Thank you very much, Mr. Chairman.[1] I certainly appreciate the opportunity to testify on behalf of Land O'Lakes and its 325,000 farmer-owners, as well as other agricultural cooperatives, on the ways in which the Government and the private sector and academic institutions can effectively work together in using our Nation's agricultural abundance to alleviate world hunger and to develop new trade opportunities.

And I think I want to just emphasize that because right from the beginning that has been our goal, to use our resources, to blend them with the Government resources, to blend them with academic resources, and then to bring all of these resources to bear on the problem—for two purposes: To help alleviate world hunger and, second, to develop new trade opportunities.

I want to thank you, Senator Boschwitz and Senator Melcher, for all the help and assistance that you have given; we appreciate it very much.

I've put together a paper here which you can look at at your leisure. The paper tells why we are in this development work, what we are trying to do. There are some examples, for example, in Belize where we are working with three U.S. universities and the U.S. Agency for International Development and the Belizian Government in developing a dairy cooperative there and a milk plant. And I'm pleased to say that we had the grand opening for that last Saturday.

And that is going to free up money which they had to spend previously to buy nonfat dry milk from the European Common Market for other purposes.

Also I think you are probably aware of our Jamaica project where we set up the Venture Capital Foundation which takes surplus butter and cheese and it goes to the Foundation and the Foundation then gives it out on bids to be further processed and sold, and then it goes back to the Foundation to be used for assisting food and agricultural development. We are predicting that that will generate, in a monetization way here, $35 to $50 million over a 10-year period, not only to develop the food and agricultural industries of Jamaica, but to really move them to being trading partners.

We are also doing things in Ecuador and Guatemala. And thanks to you, to the Congress, $5 million was earmarked in the 1985 Foreign Assistance Act—and I quote—" to replicate Land O'Lakes efforts in Jamaica and the National Cooperative Business Association's efforts in India and in other countries."

And we are utilizing this $5 million now to do some work in Guatemala and also in other countries, where we are trying, again, to essentially do three things: One is to help privatize the dairy industry; second, to help the people to become more self-sufficient to build their economy; and third, then, to build market opportunities and trade opportunities.

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[1] See p. 142 for the prepared statement of Mr. Freeh.

Let me just move very quickly to some of the implications and problems associated with new authorities in the 1985 Farm Security Act.

Generally, our experience with the Congress and the Government has been good—they have been cooperative and helpful. The new authorities in the 1985 Farm Security Act which provide for increased monetization of Public Law 480 commodities, as well as the monetization of commodities under section 416, will help to fund the type of projects that we are doing, and so will the 108 of Public Law 480, section 108.

However, once something is authorized it doesn't mean that it's actually going to happen. The funding, first of all, of title II, under Public Law 480, is still inadequate to meet the existing and potential needs for such programs, and particularly there is always a dragging of feet when it comes to monetization. And the authorization and guidelines for the barter and sale of commodities under section 416 have never really been issued by the administration. We brought innumerable projects to the administration, and in the end they've been approved, but under title II—they have always seemed to not quite fit under section 416. And we think there are some real opportunities there that we would like to see developed more.

We think that the title 1111 of the 1985 Food Security Act, this section 108, of monetizing or having the people pay for some of the product they get under title I and then use that for development—we think that is right in keeping with the model we set up in Jamaica. We think that rather than worry about what government institution is going to handle that, the cooperative should have a role there. In Jamaica, for example, we've already got an intermediary financial institution that is doing exactly what this is talking about.

And so we feel that cooperatives should have more of an opportunity to be the financial intermediary. And sometimes, as the guidelines get written, that seems to be lost somewhere. And we've been working with OMB and others to be sure that it doesn't.

We believe at Land O'Lakes that our Nation needs to look at food aid, development assistance, and trade as being part of a highly coordinated continuum—or, as Orville Freeman says, a triangle that has economic development, that has food aid, and it has—economic development, food aid, and market development. When there is an emergency, when people need food, we need to provide it.

But right from the beginning we need to have a plan for moving them from food aid to a program of monetizing food aid and providing technical assistance, and then as quickly as possible moving toward an ultimate goal of developing Third World countries into trading partners.

And unless you have that tightly coordinated, it's difficult to—you know, one group is doing this, one group is doing that, and it's difficult to really get all the way to that continuum.

So what is needed, I think—the monetization and implementation of 416. It's very important, and we need to do more. I think we need more funds in title II that can be monetized, in title II of Public Law 480.

And we need to be sure that when we get section 108 going that cooperatives can be the intermediate financial institutions—cooperatives or PVO's. And we think that has some real opportunities.

And then also those private voluntary organizations, cooperatives, and companies that have established a successful record in the use of agricultural commodities to assist countries to enhance their food security and self-sufficiency should be given more of a measure of responsibility and flexibility in the design and implementation of that program. We talk about privatization. Well, let's move more to making it more of a reality. For example, no matter how long you are in it, we still have to go through the DCC, the six agencies of Government that have to agree on everything. And it seems to me there would be a way of simplifying that without losing the oversight capability.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. Well, Senator Melcher, my friend from Minnesota was personally singing a song in that testimony, and it certainly lends a very valuable assistance—because I am familiar with some of the projects, and I say to my friend from Minnesota that I will also include him in some more informal discussions when we can get together, perhaps all of us.

We'll now turn to Mr. Pollard, who is first vice president of the Security Pacific Bank, and who is testifying on behalf of the American Bankers Association.

Mr. POLLARD. Mr. Chairman, thank you, Senator Melcher. I will abbreviate my written statement at this point.

Senator BOSCHWITZ. It's relatively short; you can go ahead. Thank you for waiting.

STATEMENT OF ALFRED POLLARD, FIRST VICE PRESIDENT, SECURITY PACIFIC BANK, REPRESENTING AMERICAN BANKERS ASSOCIATION

Mr. POLLARD. My name is Alfred Pollard, and I am a first vice president with Security Pacific Bank. We are the 56th largest bank in the world, seventh largest in the United States, and third among all United States banks in lending related to agriculture.[1]

Senator BOSCHWITZ. Where are you located?

Mr. POLLARD. Los Angeles, CA. I am appearing today on behalf of the American Bankers Association, which counts among its 14,000 members, some 5,000 institutions that are by Government definition agricultural banks or have significant positions in agricultural lending. They range in size from the bank which lends totally to local farmers for production, real estate and other purposes, to the regional bank, lending for a diversity of purposes, including export finance—I include Norwest in this category—to the large multinational banks with offices around the world.

My goal today is to review with you section 108 programs created by the farm bill to provide for local currency lending under Public Law 480. I would like to preface my remarks with a few brief comments about international lending in general, of which agricultural lending is very much a part. Then I would like to proceed to review

[1] See p. 147 for the prepared statement of Mr. Pollard.

the program, including some matters we have to bring to your attention.

In international lending in general, I would note the fundamental characteristic today for major banks. along the lines of traditional extension of credit to borrowers, is one of contraction. Pressed by concerns at home and, until recently, the high value of the dollar, with little relief since the decline in the exchange rate, and still depressed U.S. trade, banks are reviewing their international activities, and several major banks have gone so far as to announce restructuring of their banking networks. One of these is among the top five agricultural lenders and has announced its intention to close many of its overseas branches and to sell its offshore portfolios.

Historically, many of the Public Law 480 countries have not enjoyed political and economic stability, which are important to lending decisionmakers. In the political risk area alone, one need only read the newspaper to see the volatility in the political situations in the Philippines, Zaire, El Salvador, Somalia, Zimbabwe, and Peru. This volatility affects a bank's willingness to do business and operate an office in one of these states.

Still, the American banking community is committed to international finance as critical to our future. There must be a reasonable balance in the risks and rewards of this lending however. We believe that reasoned approaches to foreign activities are the best guide for action.

On the issue of congressional and regulatory matters of concern in international lending, I would note that apart from the issues familiar to you in the agricultural trade area, we face some difficulties unique to bankers.

In the 1983 International Lending Supervision Act, new rules were put in place requiring enhanced disclosure of foreign assets, additional reserves for countries determined by the regulators to be in danger of not repaying their loans and calls for higher bank capital. All of these affect the cost of doing business.

Major banks rely on smaller institutions to participate in a great deal of lending. With the present problems of LDC debt and increased Government regulation, there is increasing reluctance on the part of the smaller institutions to make additional international lending commitments.

We are currently awaiting the resolution of the tax bill conference to determine what changes the tax bill will make that affect foreign lending operations.

Finally, the bank regulators, charged with overseeing bank safety and soundness, often must indicate concern about overseas lending, which may be particularly disturbing to a smaller institution.

My comments to this point have addressed items of concern to us as bankers. I would also note that we are aware of the goals of the U.S. Government for economic improvement in the Third World and have strong feelings about the development of these nations as good customers and trading partners for the United States.

In turning to the new 108 program provided for in the Food Security Act of 1985, I would be remiss if I failed to begin by complimenting you and the chairman of the full committee, and indeed

the entire committee, in the creation of the new initiatives contemplated in sections 106 and 108.

The focus of this hearing is on international food policy and the problem of world hunger. To some degree, this problem may be traced to purchasing power in the LDC's. This in turn stems from a lack of economic growth, historically best generated by private-sector capital. Previous programs have failed to emphasize this issue of private capital sufficiently.

Clearly, you have determined to involve the private sector of the United States in an effort to enhance the private sector of developing countries.

I'd like to omit the description of the section 108 program on page 5 and skip down to the bottom of the page.

This program is of great interest to us. First, the proposal is very supportive of the Baker initiative, aimed at helping these Public Law 480 countries develop internally, enhancing their private sectors, and freeing up foreign exchange, hopefully for imports of U.S. commodities.

Second, as some of the LDC's have been unstable, we believe that expansion of the private sector, involving more people in the economy, will produce a stabilizing effect.

Third, this is a new initiative and it has been crafted in a deliberate fashion that reflects restraint and a step-by-step approach. No large bureaucracy is to be created nor is a large appropriation being made; existing funds are being put to better use.

Fourth, I want to compliment the Office of Management and Budget for spearheading an effort to meet with the private sector prior to creating final guidelines. They have had an open door for us and we look forward to continued participation with them to craft a program that has the greatest chance of success.

As you have heard by now, the agencies are developing guidelines that would eventually lead to regulations governing everything mandated in the statute, from determining eligible IFI's—those are intermediate financial institutions—to loan terms and repayment processes.

I would like to highlight for the committee some matters that are currently under discussion that may be of interest to you.

At the outset, I cited different types of banks. Only among the largest banks in the Nation would one expect to find branches or representative offices in the Public Law 480 countries. We would anticipate the program to be utilized by these banking institutions for the most part. Some banks, without a direct presence overseas, have urged utilization of correspondent indigenous banks. I would note that bank holding companies have other nonbank subsidiaries, such as export trading companies, finance companies, and the like, which I hope regulations would make clear are eligible for IFI status.

I'd like to also mention here, Mr. Chairman, that other institutions not present today, such as American Express Co. and other international financial service providers are also interested in this program.

Next, there are concerns about doing business in the LDC's. This local currency lending program could very well contribute to LDC stability and LDC capacities as trading partners, which I believe to

be strong. We face difficulties in the LDC's, however, not wholly dissimilar to administering lending programs we operate anywhere; by that I mean we attempt to manage our liabilities and reduce our risk exposure as part of prudent banking practice. Among the tools we use are guarantees, hedging, and reserves. Clearly, these activities will be more difficult when dealing with local currencies and each bank will have to address these issues on its own.

Next, the statute provides that loans should not be made to agricultural enterprises that produce commodities in competition with U.S.-produced commodities. The clear expression of what that means and what commodities are eligible will have a definite impact on the future of the program. Banks would be concerned about the administration of commodity listing and who is charged with monitoring developments in the commodity marketplace.

The law calls for loans to be made to the nonpublic sector. Again, who will make a decision on the eligibility of a borrower and what the criteria are will be of importance to bankers.

Also, section 108 calls for interest rates to be set based on local rates. Again, clarification is needed as to who will determine these rates and what they will be. The staff has been sensitive to the fact that these loans will be small in amount which means they are labor intensive and returms to the financial institution should reflect the risks and higher administrative and servicing costs.

Bankers feel it is helpful to maintain flexibility in developing lending programs. The current guideline drafts tend to put control over program development and implementation in the hands of the bureaucracy; that is, there appears to be a drift toward greater Government control over the actual lending process. We are uncertain if this is in line with statutory intent.

The banking community looks forward to continuing to work with the Government agencies as they develop this program for implementation. I believe that both the program concept and the approach to its development by the agencies are, on the whole, encouraging.

I would be happy to answer any questions you may have. And if I might ask for a personal indulgence at this time, especially of the other witnesses, I did have a prior 1 p.m. appointment. If you do have any questions I'd be happy to answer them now.

Senator BOSCHWITZ. Unless you have a question of this witness—your testimony was very interesting, giving the outlook of the programs from the banking community's standpoint. I think it was quite clear and very much to the point. I have no questions.

Do you have any questions, Senator?

Senator MELCHER. Yes, I do. Mr. Pollard, first of all, let me tell you I am familiar with your bank. I had a brother-in-law, now retired from it, that served in your institution for quite a number of years.

Senator BOSCHWITZ. You have a large family. I might say your brother has recently written to me. [Laughter.]

Senator MELCHER. You can always tell my brother because we've got the same name. But my brother-in-law has a different name.

Senator BOSCHWITZ. He may have written, too. [Laughter.]

Senator MELCHER. Mr. Pollard—and I will say this to the rest of you—if there is any confusion about what section 108 does and how broad it is, I would like to dispel that. First of all, section 416 provisions are donations, and those donations are unlimited as long as we have commodities in surplus and figure that this is a good place to put them.

That entire amount could be monetized right there, and it's up to the recipient country along with our decisionmakers here how much that will be.

But it's openended.

Second, I'm pleased that you've gotten right into the middle of this. If we are going to allow the State Department, and AID, or OPIC, or a combination of them to determine what the interest rates are and what's done where, nothing will come of this program. I have great faith that this program is worthwhile, and it should be used expeditiously.

I take it that's your point, is it not?

Mr. POLLARD. Senator, first of all, I'd note that banks deal with a variety of Government agencies and quasi-Government agencies, a variety of programs—everything from OPIC, from whom you heard today, to Eximbank, to CCC.

We have found traditionally that those programs where we have been afforded some degree of opportunity to participate in the development of either guidelines or programs and these where administrative flexibility, a term that the State Department used today, where that is maintained, that that really is the best situation.

The statute does call for some matters which, as I said in my testimony, are of concern, but I think that in my testimony, I wanted to emphasize—if the Congress passes a law, that's the law. How it is administered is now of concern to us. You've already set forth certain guidelines for these agencies. Is there going to be flexibility, is there going to be adherence to the statute, as written by the committee? That's our goal.

Senator MELCHER. I'm not a lawyer, but I think I understand what the law says, when you deal with it as intimately as we have dealt with it in developing this legislation. I am going to tell you what the congressional intent is, and I think any fair reading of it by any bunch of lawyers will say that this is the case. Our intent is, first of all, that you allow a great deal of flexibility in section 108, because these countries vary and the circumstances within a country vary as to how you'd want to use section 108.

I think the law is very clear that a private, voluntary organization operating in a country can become the intermediate financial lending institution.

I deplore the complications to this that have been hatched out in the State Department. We talk about the guidelines going out June 15—that was their guidelines for chaos. Unless it's straightened out, there are a lot of us here in Congress that are not going to be satisfied.

I'll guarantee you something else: Unless some of these programs are used—and section 108 is a very attractive program to be used—this whole trade deal is going to be caving in on us to the extent

that everybody is going to be alarmed at it, including the President.

We need a President leading in these matters, to develop policy, and to get over the hurdles of whose turf you are on. All the State Department has said to me today and all they have said to me in the past several months is that they are afraid they are going to lose some turf. So they want to muddle around in it, make it tough, and get these regulations screwed up.

They've done that on monetization of section 416. This is a little different matter since the monetization is not in question here because all of these donations are to be monetized under section 108.

I'm amazed the American Bankers Association has a committee that's worked this diligently and forthrightly on understanding what can be accomplished and what should be accomplished, and I want to compliment you.

Mr. POLLARD. Mr. Chairman, if I may ask to be excused at this time. Is that in order?

Senator BOSCHWITZ. That's OK.

Mr. POLLARD. Thank you.

Senator BOSCHWITZ. Senator, do you have any further questions?

Senator MELCHER. I would like to thank the other three. I think it's real good testimony and it's going to help us. It appears that we will have to have this confrontation and that it will have to be resolved by the President. I don't think we have time enough to go through all these machinations that would occur between the State and Agriculture Departments and end up with a continuation of dwindling exports.

I believe, Mr. Chairman, that there are a great number of us who will be wanting to see the President enter into this directly in order to speed up exports. I think we are fast approaching that day.

Senator BOSCHWITZ. Well, I will get involved in the confrontation, as you call it, to try to sort out exactly what's going on, and try to sort out the various representations—and I will do that during this span before the next recess.

Unless there are further questions, the hearing is adjourned.

[Whereupon, at 12:56 p.m., the subcommittee recessed, to reconvene at 10 a.m., Thursday, August 14, 1986, in room SR-332, Russell Senate Building.]

U.S. FOOD AID PROGRAMS AND WORLD HUNGER

Humanitarian Role of Food Aid Programs

THURSDAY, AUGUST 14, 1986

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:14 a.m., in room SR-332, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senators Boschwitz, Dixon, Zorinsky, and Melcher.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. I am pleased to continue the series of hearings that we began some time ago on world hunger and on exports, and on the business of this subcommittee, and giving an overview to it. This is the second hearing of three, that is going to focus on the short-term problems. We have had three others as well.

We want to identify areas that potentially will be experiencing hunger and drought, or famine, and examine what PVO's and the administration are doing to address the problem, and perhaps get a little bit ahead of the curve, which is the purpose of what we are trying to do as well.

I think that our country, and Americans in general, should be proud of our food aid effort. That is not to say that we cannot do more, and that we cannot do it more effectively, because while we produce only a fraction of the world's total food output, we contribute more than half the world's food that is given to those who are in need, or who are hungry.

In addition, our own programs like Public Law 480, Food for Peace, that was initiated by my predecessor in the Senate, Senator Humphrey, and the section 416 program make surplus commodities available for foreign and domestic food programs.

The United States has been the leader in international efforts at the World Food Program, the International Fund for Agricultural Development, and we lead the world both in the amount of aid provided and in coordinating the various programs that are in place. I look forward to hearing from our witnesses today on the causes of world hunger, what can be done to prevent world hunger, how effective our food aid programs are in alleviating the hunger, how ef-

fective they are in preventing hunger in the first place, and where problem areas will be both in the near term and long term.

In order to expedite the hearing, I want to proceed a little bit differently this morning. I would like to hold the questions, with the consent of my colleagues, until all the witnesses have testified.

This time we have a shorter list of witnesses. Since we have only five witnesses, and we can at that time ask questions that will be answered by all sides.

Because, the witnesses are more familiar with the details of some of these things than we are, it will lead to a more lively exchange.

Senator Melcher.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator MELCHER. Having that type of exchange is a good idea. I am greatly concerned about the situation we face with subsidized sales of wheat to Russia. We were just about forced to do this once the situation became clear. You cannot have two prices: one price for customers that are non-Communist, and then expect to sell to Communist countries at a higher price. It simply does not work. Russia and China protested that vigorously, and said, if we are going to buy, we are going to buy at the same price you have been selling to other countries.

So we were forced into that situation. What concerns me is that we are not taking up the other slack, and that is with these developing countries by using Food for Peace and section 416. I do not think there has been a section 108 program instigated yet, which is also available.

Unless we do both, we are not going to move this surplus. It is simply going to get higher and higher and we are just going to be sitting on it. The consequences of that, of course, are price depressing. Prices will go lower, and we will pay out more storage costs.

I noticed skimming through Miss Bloch's testimony, talk about 2.4 million tons of grain, and perhaps most of it wheat that has gone to Africa over the last year or two.

The facts remain, however, that over the last 2 or 3 years, the Food and Agricultural Organization still documents a shortfall, currently, yet this year, of 1.6 million metric tons, without counting Nigeria. Those familiar with Nigeria say they have a shortfall of another million metric tons. And we have the added situation of a locust and grasshopper infestation in a half a dozen countries in Africa. Simply put, it looks like there is probably a shortfall of a greater magnitude than the 2.4 million metric tons to which Miss Bloch is testifying, over the last 3 years.

I frankly believe, if you have the surplus, you want to do three things. One, you want to stabilize the price somewhere. You try to move as much of the surplus as you can. Where this administration is falling down is simply in refusing to make these commitments on Food for Peace, and the related programs.

Second, you want to save the storage costs, which we are told are going to be about $2 billion for this coming year. Again, what you do is start moving them.

Third, there is still the basic underlying policy that we have had for so many years, which is being thwarted and reversed now, and that is to utilize this abundance for meeting hunger needs abroad, for humanitarian reasons.

We might use it for hunger here, too, by the way. But we certainly must use it for humanitarian reasons abroad, to satisfy hunger needs, and to develop markets that will pay off in the future.

So I would like to hear more positive testimony from the witnesses on these points this morning. Tomorrow, the representatives of all the major grain exporting companies, all of the soybean processors, crushers, exporters; all of the commodity groups; namely, corn, wheat, dairy, and soybeans, as well as rice—are going to be meeting here in Washington, as they did July 10, to try to light a fire under Washington, both under Congress and the bureaucracy, to start doing the right things.

They are in the business of exporting, and that is how they make their money, whenever they do make any money, and they do represent not only agribusiness, but they also represent producers.

And they have had it "right up to here." I suppose they all voted for President Reagan but they have had it "right up to here," and they are saying as loudly as they can that this is a very foolish policy that we have seen "hatched out" for the past couple of years. They can't understand sitting on these surpluses when people are obviously hungry, when it is obviously a potential trade development for the future. They want action and they have zeroed in on this clampdown and transfer of funds out of African famine relief, and Food for Peace funds, specifically pointing out that that was a misbegotten action by the House and that the Senate should reverse it. There is no clear-cut reversal on that as a result of the vote yesterday. It is still fuzzed up, and I think what they are going to be asking tomorrow is, what is the matter with this government? Why do we not recognize the facts? Their concern is up here, on the Hill, and downtown, as well, in the White House, and Department of Agriculture, and Department of State, and particularly, the Agency for International Development [AID].

So, Mr. Chairman, these hearings are timely and useful. We should have been zeroing on this and trying to reverse it quicker than we have been doing. I thank you.

Senator BOSCHWITZ. I thank you, Senator Melcher. The Senator from Illinois, Senator Dixon. Do you have an opening statement?

Senator DIXON. Mr. Chairman, as the ranking member of this subcommittee, I congratulate you on holding this hearing. I regret to advise that I will not be able to stay long because we have a markup right now taking place in Banking, but I am going to leave an opening statement, and I congratulate you on pursuing this course.[1]

Senator BOSCHWITZ. Well, go take care of Banking and see whether or not you can get lower interest rates for some of our friends on the farm.

Senator DIXON. Easily done.

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[1] See p. 153 for the prepared statement of Senator Dixon.

Senator BOSCHWITZ. Is it? Well, where have you been? [Laughter.]

I have long maintained that many of the problems in agriculture could be solved a good deal more cheaply and directly if we were to have an impact on interest either through a buy-down, or some other provision. It would be a lot cheaper than paying every farmer these enormous amounts that we do.

Well, having said that—and I hope you do stay as long as you can, Senator Dixon—I will ask Julia Chang Bloch, the Assistant Administrator of the Food for Peace and Voluntary Assistance, Agency for International Development to come up, and also, Melvin Sims, who is the General Sales Manager, and Associate Administrator of the FAS.

We have three people by the name of Sims, do we?

Mr. SIMS. Yes; I have brought a couple of associates with me. Is that acceptable?

Senator BOSCHWITZ. Fine; for the record, would they please introduce themselves and state their titles.

Mr. SIMS. Arlene Mitchell from OICD and Kelley White from Economic Research Service.

Senator BOSCHWITZ. What is OICD?

Mr. SIMS. Organization for International Cooperation and Development. I am sorry.

Senator BOSCHWITZ. Kelley, please state your last name again.

Mr. WHITE. White.

Senator BOSCHWITZ. You are from the congressional——

Mr. WHITE. Economic Research Service.

Senator BOSCHWITZ. Economic Research Service. All right. Miss Bloch, we will proceed with you.

Incidentally, I thank all of you for changing your schedules. I had to manage a bill on the floor on Tuesday morning and so could not be here. I appreciate your rescheduling so quickly.

STATEMENT OF HON. JULIA CHANG BLOCH, ASSISTANT ADMINISTRATOR, BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE, AGENCY FOR INTERNATIONAL DEVELOPMENT

Ms. BLOCH. Thank you very much, Mr. Chairman, and Senator Melcher. For an AID witness to appear twice before the Senate Agriculture Committee in as many months, I think this sets some kind of a record. But I see this as a very positive sign, that there is increasingly closer cooperation between AID and this committee.

I see this also as a positive sign that the Agriculture Committee recognizes that the work that the Agency for International Development does in the developing world has a direct benefit for American agriculture, and is key to solving the problems of world hunger, the issue that we are going to be discussing this morning.

Senator BOSCHWITZ. You might also see it as a sign that we are going to familiarize ourselves more with what you do, and offer a somewhat more thorough oversight.

Ms. BLOCH. Well, we look forward to that. In view of the time constraints this morning, I will make some summary remarks, and ask that the formal statement be submitted for the record.[1]

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[1] See p. 154 for the prepared statement of Ms. Bloch.

Senator BOSCHWITZ. Fine.

Ms. BLOCH. The issue of world hunger is seemingly one of contradictions. While the world is awash in grain, international estimates indicate that there are some 451 million people who still go home and go to bed hungry at night. But I think an explanation for this age-old dilemma indicates that there is no real contradiction. We all know that ending world hunger is not simply a feeding problem with a food aid solution.

We also know that food aid is indispensable to humanitarian relief when there is a famine. Witness the massive relief efforts for the African famine. I think we all know, particularly this committee, that man has not invented a better palliative for treating the symptoms of world hunger than the Public Law 480 program. However, treating symptoms does not cure the disease. Our challenge is to find ways to address the root causes of world hunger. We at AID believe that Public Law 480 can make a major contribution to the success of this longer term effort. In this regard, the Public Law 480 program makes a conscious decision not to dump food aid into depressed economies.

Dumping may relieve hunger in the short-run, but it will not eliminate the causes of hunger. It may, in fact, aggravate the problem by producing an unintended negative impact on the recipient country's own capacity to feed itself.

As President Reagan has said, and I quote: "That kind of foreign aid is nothing more than welfare payments on a global scale, and just as ineffectual and degrading."

We have learned a great deal, in recent years, about ways in which food aid can effectively support the longer term development process.

India is one such example. In the decade from 1965 to 1975, food grain production in India more than doubled. In spite of a high rate of population growth, India went from a chronic deficit to a position of self-reliance with actual surpluses this year, and even to becoming a food aid donor to needy African nations.

Public Law 480 provided AID, and the U.S. Government an entrée for policy dialog with the Indian agricultural service in the early 1960's, by providing a food safety net while India implemented reforms. Another way Public Law 480 can help developing countries feed themselves is through the use of local currencies generated by the sale of Public Law 480 commodities for development purposes.

Although many of the world's poor still face hunger and malnutrition, developing countries, as a group, have nearly doubled their food production since 1962, thanks in part to U.S.-supported food aid and agriculture programs, and research.

The United States has benefited in a very direct way from this developmental progress. At the same time that developing countries have more than tripled their per capita income, they have increased fivefold their agricultural imports from the United States.

Economic development not only makes it possible for people to feed themselves; it in turn creates markets for agricultural exports.

Talking about the topic in general, it is useful to set the scene, but I was told this committee wanted, in the most basic sense, the

answer to the question, where, and when is the next Ethiopia? And of course, what are we doing about it?

I honestly cannot answer the first part of that question. An emergency is, by definition, unpredictable. I cannot tell you which country will be the next Ethiopia, but I can tell you under what conditions such a calamity is likely to occur.

I am glad to tell you what the Agency for International Development is doing to monitor those conditions, and, hopefully, stave off the next Ethiopian style crisis. The types of conditions which accentuate the susceptibility to famine, which we carefully monitor, include: Unusual agroclimatic conditions; population shifts; abnormal livestock sales; and erratic food prices in the marketplace.

Government policies and domestic stability are critical, as are the country's transportation and marketing infrastructures. AID uses its field staff to collect, measure, and evaluate these conditions.

Although not an easy task, such monitoring is necessary because mere global figures on hunger tend to confuse rather than elucidate.

International estimates tell us that 450 million people are severely undernourished; that up to 20 million of them die every year of hunger-related illnesses; and that of these, 15 million are children under the age of 5.

These are dramatic and terrible numbers, yet they actually tell us little about the problem, or even about where or how to respond to it. Many of the men, women, and children represented in these statistics live in countries which do not, in the aggregate, suffer from food deficits. Or, in some countries food production clearly is inadequate to meet domestic demand, but the country's financial capacity to commercially import food may obviate any generalized need to donate food aid. Because usable food needs information can be so variable, if not actually contradictory, it can become the focus of considerable controversy and confusion. Famine experts agree that this is a critical issue that must be resolved.

At AID, we have taken the initiative, following on the presidential Third World hunger study, to develop and publicize a basic field manual available in both French and English, for estimating food deficits.

It has been field tested, shared with other donor organizations, and can now be used in developing countries in conjunction with a computer program that is compatible with the most popular—and now ubiquitous—personal computers.

What does all this say about where the next Ethiopia will occur? While sudden shifts in any of the conditions which I mentioned earlier could generate a food emergency anywhere in the world, I am sure no one is surprised by the conclusion that Africa will remain the major focus of our emergency food efforts in the foreseeable future.

Africa's demand for food aid has increased dramatically, and in recent years it has become the main recipient region for food aid. Population increases on that continent continue to outstrip food production increases. The region's share in donor food aid programs has risen steadily, absorbing more than half of the world food aid by the early 1980's. This trend is unlikely to change over-

night. At the same time, we are monitoring a potentially serious grasshopper and locust threat in Africa, which Senator Melcher mentioned, and this could damage crops in the field, and build over a period of months, or years, to proportions rivaling the disastrous locust outbreaks which occurred between 1930 and 1945.

Yet the rains were good in Africa last year. Many African countries started this crop year with healthy foodstocks in reserve. USDA estimates—and now the expert from USDA is sitting at this table—of additional cereal needs to meet normal food consumption requirements, in sub-Saharan Africa, dropped 39 percent this year, to about 2.5 million metric tons in 1986–87, from their previous year's estimates of some 4.2 million metric tons.

Now, since time again is running short, and Senator Boschwitz mentioned that the committee wants to focus on the short-term problems, let me skip over what the Agency for International Development is doing in terms of responding to the longer term hunger challenges, and get to the basic question of how best to help Africa, or any of the world's hungry, for that matter.

I think that we know that food aid is only a partial answer. We, at AID, are working closely with all concerned groups to meet the challenge of supporting African recovery and development. Some priorities, in shorthand, include: agricultural research; preserving and increasing soil fertility along with maintenance of ground water; investments in human resources development with an emphasis on child survival; policy reform; and private enterprise development.

Fortunately, the Congress, this committee in particular, has given us important tools for use in encouraging private sector-led reform of the agriculture sector in developing countries, such as the Food for Progress and local currency lending provisions which I spoke to the last time I appeared before this committee.

Let me now end my remarks this morning, by quoting AID Administrator Peter McPherson, who said:

> Hunger would not be eradicated by agricultural solutions alone. Hunger cannot be solved by charity. The permanent salvation of the hungry is not the feeding of individuals, but the economic growth of nations.

Hunger is, indeed, more than a relief issue; it is, in fact, a development issue. I commend this committee for taking a longer term perspective on the problem of world hunger, for continuing to take an interest long after the images of starving children have vanished from the nightly newscast, and particularly for providing us with the tools to combat the root causes, and not just treat the symptoms of the disease.

I would also add that it is important for the agriculture community to take an interest, as it is doing, in world hunger issues, because I believe that American agriculture, and particularly the American farmer, has not received due recognition and due visibility, for the indispensable role that they have played throughout history in working to eradiate world hunger.

Thank you very much.

Senator BOSCHWITZ. We welcome Senator Zorinsky to the hearing. We are going to hear all the witnesses first, and then allow them to answer the questions, so that we have a little bit of a more

lively debate, because there are different viewpoints among the witnesses.

Do you have an opening statement?

Senator ZORINSKY. No. I am here to listen to the witnesses.

Senator BOSCHWITZ. All right. We will turn then to—

Senator ZORSINKY. I ask that my statement be placed in the record.[1]

Senator BOSCHWITZ. Certainly.

I also have a statement here from Senator McConnell which I will include in the record.[1]

We will turn then to Melvin Sims, the General Sales Manager and Associate Administrator at FAS.

Mr. SIMS. Thank you, Mr. Chairman.

Senator BOSCHWITZ. When Miss Bloch referred to the "expert" on some of these matters, well, I am not quite sure who—I suppose you are talking about Arlene or Kelley. Who is it?

Mr. SIMS. Kelley.

Senator BOSCHWITZ. Well, feel perfectly free to "pipe up." You just got back from China, I am told?

Mr. SIMS. Yes; I am still suffering from the jet lag, as a matter of fact.

Senator BOSCHWITZ. When did you arrive?

Mr. SIMS. I got back Tuesday.

Senator BOSCHWITZ. Tuesday?

Mr. SIMS. Yes.

Senator BOSCHWITZ. Today is Thursday. I kind of have a little "jet lag" from last week, too, from all the sessions, but I think it is probably not as intense as yours. [Laughter.]

Please go ahead.

STATEMENT OF MELVIN E. SIMS, GENERAL SALES MANAGER FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. SIMS. All right. If I may, I would like to also summarize my statement and give the full context for the record.[2]

As a leader in agricultural production, the United States has long recognized its responsibility to help end world hunger.

The United States is the world's largest food donor. In the past 30 years, we have provided some $35 billion in food assistance to developing countries, more than all other nations combined, and we stand ready to provide continued food aid in the future.

In the long run, however, increased food security for the world depends not on the assistance the United States provides, but rather, on patterns of economic development both within and across nations. Our food assistance efforts, increasingly, reflect that fact. The cornerstone of the U.S. Food Aid Program is Public Law 480, or the Food for Peace Program.

This program has enabled the United States to meet both the emergency and short-term needs of hungry people around the

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[1] See p. 152 for the prepared statement of Senator Zorinsky, and p. 153 for the prepared statement of Senator McConnell.

[2] See p. 160 for the prepared statement of Mr. Sims.

world, as well as to foster the kind of long-term economic development that is essential to true food security.

I will first address the emergency aid program. The donation program, under title II of Public Law 480, is one of the tools most frequently used to relieve emergency food requirements. In fiscal 1986, title II budget is set at $754 million, which will provide approximately 2.5 million metric tons—on a grain equivalent basis—of food donations. We also have two other emergency aid programs. Section 416 of the Agricultural Act of 1949 permits us to donate virtually any commodity held in stock by the Commodity Credit Corporation.

The food security wheat reserve assures the availability of wheat for the Public Law 480 program, even when domestic supplies of wheat are extremely limited. The reserve currently stands at 4 million metric tons.

Now on the long-term development needs. Public Law 480 concessional credit sales programs under titles I and III are the two tools we use most frequently in promoting long-term economic development overseas.

For fiscal 1986, the funding for title I/III programs is almost $900 million, which should provide long-term concessional financing for approximately 5.6 million metric tons of agricultural commodity exports. The Food Security Act of 1985 also established two new assistance programs.

Food for Progress provides U.S. agricultural commodities to developing countries that will work to implement agricultural policy based on the principles of free enterprise, thereby promoting the role of the private sector in production and distribution.

Commodities may be made available for use in this program under the authority of either section 416(b), or the Agricultural Act of 1949, or title I of Public Law 480. The local currency sales initiative is aimed at generating economic growth through aiding the private sector in foreign countries. Proceeds from sales of U.S. commodities can be loaned to financial intermediaries in title I countries, who in turn can lend these currencies to local private entities, primarily in the agriculture sector.

The procedures for this new program are being developed and the program may be underway in early fiscal 1987 if not later this fiscal year.

The Food Security Act of 1985 also included specific funding levels for the Farmer-to-Farmer Program authorized by section 406 of Public Law 480. The program finances the overseas experience of volunteers to give rural communities and cooperatives managerial advice in all areas of farming and rural life.

Technical assistance and training. Efforts toward promoting greater world food security also include a number of technical assistance and training programs encompassing such agricultural disciplines as animal and plant disease control, and suppression; forest and rangelands; agricultural information and marketing services; economic analyses and forecasting services; and agricultural reference services.

For example, one very important project underway this year involves an assessment of the extent of the locust/grasshopper problem in Africa, and the mobilization of resources to address the

problem. Now, projecting world food needs. The interagency food aid needs working group, established in 1984, has greatly improved the U.S. ability to assess changes in the world's food situation. This group draws upon existing capabilities in the various Federal agencies to improve the early warning capability for detecting trouble spots in the world food situation.

It also provides us with a coordinated process for producing a single official estimate of the food needs of the world's nations, in excess of their production, or commercial import capacity, and Kelley White is the one that is heading up that effort.

USDA's foresight program, at least in terms of published forecasts, emphasizes the relatively short-term view of 1 to 2 years. These short-term forecasts are updated periodically and can be adjusted to take account of changing conditions.

This administration stands ready to provide short-term food relief when emergencies occur. However, in the long term, the world's food security rests on achieving greater productivity in the developing world.

That is productivity not only in agriculture but in all areas. As a consequence, we are giving developmental assistance greater priority in our food aid programs, and I would be willing to field questions you may have.

Senator BOSCHWITZ. We will now turn to the private sector witnesses and ask them to sit on either side of the table. We would point out that in requesting the information this morning we had hoped that we would have more specificity than just a broad review of the programs that we have passed, and that we are very familiar with. And I am not sure that we need a review of the fact that they exist.

If the people who have come to the witness table would introduce themselves for the record, please, starting with the gentleman in the blue.

Mr. AYRES. My name is Bill Ayres. I am the cofounder and director of World Hunger Year.

Mr. MCLAUGHLIN. My name is Martin McLaughlin. I am a staff associate at Interfaith Action for Economic Justice.

Mr. VON BERNUTH. My name is Rudy Von Bernuth. I am the director of program administration overseas with CARE of New York.

Senator BOSCHWITZ. All right. We will proceed, first, with Mr. Von Bernuth, and then follow with Mr. McLaughlin, and then Mr. Ayres.

STATEMENT OF RUDY VON BERNUTH, DIRECTOR OF PLANNING AND PROGRAM OPERATIONS, CARE, NEW YORK, NY

Mr. VON BERNUTH. Thank you, Mr. Chairman. I have already submitted a written statement of my remarks for the record, and I will attempt to follow other people's example and——

Senator BOSCHWITZ. If it is not repetitious, we do not mind your going through it.

Mr. VON BERNUTH. Well, I will attempt to hit some of the highlights of it, and, then, if you require more information, of course I will be available for questions.[1]

In preparing for these hearings, I was asked by the chairman to reflect on three concerns: The causes of world hunger, its prevention, and the effectiveness of our response.

As for the principal causes, I think the principal point to emphasize, again and again, is that the strongest calling——

Senator BOSCHWITZ. Before you go on, Mr. Von Bernuth, we just had a vote call, and I ask Senator Melcher: Shall we go over and vote together, and come back? I would not like to miss any of the testimony.

Senator MELCHER. I think that would be wise.

Senator BOSCHWITZ. All right. We will stand in recess for about 5 minutes, and then we will come back.

[Vote recess.]

Senator BOSCHWITZ. The Chair notes again that the testimony thus far has been very general. This is the fifth or sixth hearing. We are not going to ask AID to come twice in 2 years if they are only going to repeat their original testimony in a different form. We are not here to waste time. We are here to try to do some oversight, and we are here to get some pointed testimony, not a series of generalities, and that is what we have heard this morning.

We want to know how title III is working. We want to know how the foreign currency acqusitions and whether or not infrastructure is being built. We did not hear that this morning.

We were rather pointed in the way we asked the Department, and AID about their testimony, but apparently that did not do any good.

We will now proceed with Mr. Bernuth.

Mr. VON BERNUTH. Thank you, Mr. Chairman.

As I mentioned before, I was asked to talk about three concerns: The causes of world hunger, its prevention, and the effectiveness of our responses to it.

I had started out by mentioning that the principal cause of hunger, worldwide, was poverty, and the lack of equity within developing nations, and if we are going to deal with world hunger, we are only going to deal with it effectively to the degree that we eliminate poverty, and we reduce the disparities of income within the countries that are affected by this hunger.

In order to do that, we are going to have to tackle the developmental task of building rural infrastructures and enhancing the capability of societies that are largely rural to support themselves.

We, in CARE, strongly believe that food can and should be an important resource in dealing with these problems, and I would like to talk to you, to be specific, about several examples of the kinds of food use programs that we operate in Asia, that we think are effective examples of what food resources can do, food aid can do, and then try to relate that to the situation which we encounter in Africa today, to highlight some of the problems that we, at least,

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[1]See p. 164 for the prepared statement of Mr. Von Bernuth.

as an agency have in dealing with the problem of hunger in Africa and the problem of use of food aid in Africa.

I will start first with a program that we have in Bangladesh, a large program which we call Food for Work. CARE's Food for Work Program in Bangladesh works well for several reasons.

First, the cost of inland distribution of food is reasonable, and well below the receivable value of the food aid. Second, there are a large number of unemployed in rural areas where our Food for Work projects are being implemented. Third, the food aid is linked with the Government of Bangladesh policy of encouraging domestic production with fair producer prices.

Unfortunately, these factors are often missing in Africa. Going beyond the poverty focus, we also know that there are many instances where food is available and accessible, but still we find chronic hunger and malnutrition.

This is particularly true among low-income groups, pregnant and nursing mothers, infants and preschools, all of whom have special nutrient needs.

It is this target of poor, nutritionally at-risk individuals, that CARE's nonemergency food aid programs, apart from Food for Work and school feeding, strive to reach.

In order for these programs to have a lasting effect, such projects must be linked with nutrition education, training, and health and child survival components such as immunizations, oral rehydration and breast feeding promotion, designed to break the downward spiral of diarrheal infection and malnutrition.

In India, and in the Philippines, among other countries in Asia, CARE manages large-scale maternal/child health programs targeted toward mothers and preschool children. Our program in India, which supports the Government of India's integrated child development services program, which is a national governmental program, is an excellent example of such a project.

The project is effective largely because CARE's food assistance is not an end in itself but rather, one component, one resource, supporting the Government's overall goal of improving the nutritional and health status of children under 6, through greater community involvement.

In this context, U.S. food assistance makes excellent sense. Nowhere else in the world could we so significantly contribute to improving the health and development of so many of the world's children at so little cost.

Conversely however, where such a commitment on the part of the Government, and on the part of the donors does not exist, where there is not an adequate commitment of a financial and managerial resources, nor a delivery system that permits cost-effective food distribution, then food aid and child survival projects are less effective.

This of course leads us to the consideration of problems in using food, food aid in Africa. As you know, sub-Saharan Africa is certainly the most threatened region in the world today. The region has had decades of declining per capita agricultural production and declining per capita consumption. This was followed by, in the last several years, devastating drought threatening millions of lives, and most recently, by the widespread threat of locusts. The conti-

nent is inadequately supplied with pesticides, equipment and vehicles to deal with the locust problem, and this is also typical of the problems of shortages of funds, and shortages of equipment for internal transportation and distribution of food, which have affected the emergency programs which CARE, and other agencies have operated over the last several years.

I believe that CARE's Africa-wide emergency food aid programs last year were extraordinarily effective in preventing loss of life and diminishing mass migration to urban areas.

Indeed, CARE received the President's Hunger Award last year for this effort, but food aid has been less effective in preventing future food crises.

In the Sudan, where our emergency food program reached 1.5 million people last year, there was some strengthening of the food storage inventory control and general food rationed distribution skills at the village council level, and a food aid unit will be established in the Ministry of Planning with CARE's technical and financial assistance to monitor nutritional status.

I might add that CARE has also worked with the Government of Ethiopia to establish a computer management information system to help monitor the distribution of food in that country, and enhance that Government's capacity to manage its food aid.

Similarly, emergency Food for Work projects in Chad have had the secondary effect of increasing agricultural production through irrigation schemes which will benefit subsistence farmers in drought-prone regions.

In Mali, a follow-on project to free food distribution is now utilizing Food for Work to reconstruct water catchments, canals, and wells, and in Niger, where there are still approximately half a million drought-affected people, and the 1986 crop appears seriously threatened by locusts, CARE's food assistance will be extended an additional year, and is involved in the training of large cadres of women who will be able to manage food distribution centers and supplementary feeding programs in the future.

However, apart from the emergency situations where food is quite correctly seen as an end in itself, CARE has often found that the financial and managerial costs related to handling food in Africa can exceed the benefits gained in using the food in a traditional manner as a resource for development.

Internal logistics cost, storage, and transport are generally very high in Africa due largely to the poor road system and the need to provide warehousing, or rent warehousing from the private sector.

The problem is compounded by the inability of the Africa governments to help cover these costs as in fact in Asia, these costs are usually covered by the host government.

To have an impact on long-term problems, and to be effective, food use projects require cash budgets for tools, water pumps, seedlings, or other complementary inputs.

These cash requirements are not regularly met, either by major donors, or by African governments in Africa today. Accordingly, further expansion of CARE's nonemergency food programming in Africa, or other agencies' food programming, will likely require—if we are to have such programs—both innovative approaches to generating local currency support, on our part, and additional cost-

sharing from AID, in the form of grants to PVO's involved in the food use programs.

We believe recent amendments to the Food Security Act of 1985 permitting local currency sale of title II and section 416 commodities, and provisions encouraging AID to negotiate multiyear program agreements with our organizations, will help us find solutions to some of these problems, but more is needed.

Mr. Chairman, I know the Senate Agriculture Committee has oversight responsibility for our Public Law 480 and section 416 programs, and I have therefore emphasized food use issues in my statement.

Nevertheless, as a member of the Senate Foreign Relations Committee, I know you fully appreciate the importance of our bilateral and multilateral development assistance activities as well. Apart from the value of the food during emergencies, CARE believes that well-managed food aid projects can aid our development efforts, particularly in the areas of child survival, education, and rural development. Thank you.

Senator BOSCHWITZ. Thank you very much, and now we turn to Mr. McLaughlin.

STATEMENT OF MARTIN McLAUGHLIN, STAFF ASSOCIATE, INTERFAITH ACTION FOR ECONOMIC JUSTICE

Mr. MCLAUGHLIN. Thank you, Mr. Chairman, for the opportunity to submit a statement, which we have done, and to offer some comments at this hearing on world hunger.[1]

I am a staff associate at Interfaith Action for Economic Justice, a coalition of religious denominations and agencies concerned with issues of poverty and hunger.

Since we began, about a dozen years ago, the problem of world hunger has been one of our top priorities. We try to apply religious, ethical, and moral norms to situations we observe, and then advocate actions reflecting that normative judgment.

I was told that you wished to focus on four questions. First, how effective are the humanitarian relief programs? Second, what can we expect from them in future famine situations? Third, what are the causes of world hunger? And fourth, what can we do to stop it?

Because the agency I work for engages in education and information and advocacy, but does not undertake relief or development projects overseas, we felt it more appropriate to focus on the third and fourth questions—that is, on causes and remedies, leaving the assessment of past and future operating programs to the agencies that conduct them.

My comments this morning will not address the problem of famine, the dramatic event that captures the attention of the media, but the chronic malnutrition that invisibly but daily affects about half a billion people, one-tenth of the human race.

That is the real problem. In fact that is the scandal of hunger in the midst of abundant food. I think you may find, Senator, that testimonies will converge a great deal in this causal and remedial area.

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[1] See p. 167 for the prepared statement of Mr. McLaughlin.

In my view the basic point is that hunger is caused by poverty and that poverty is caused by powerlessness: People are hungry because they are poor, and they are poor because they do not have the choice, the option, to choose otherwise.

The question you raise deserves a more technical answer than that, a far more comprehensive one than the time allotted will permit. We need to discuss the causes of hunger, or perhaps more precisely, the factors that bear on hunger and malnutrition in terms of both supply and demand.

On the supply side we know that land, water, energy, technology, research, and the weather all affect food availability. This is all very familiar. The limits, constraints, and possibilities regarding these factors have been studied and written about extensively, and our written statement includes a very short explanatory paragraph on each.

Essentially these are factors that primarily affect production. They are in a major way susceptible of technical solutions; in short, they are economic matters. The demand side problems, on the other hand, affect distribution, consumption, and ultimately, nutrition. They are much more difficult. We would list three.

First, population growth exerts the most direct quantitative pressure on the food supply. Obviously if there are more people there has to be more food. The world has just passed the 5 billion mark, and it is expected that by the beginning of the third millenium, 15 years from now, the total will be more than 6 billion.

Second, differential consumption patterns—that is economic jargon—arising from inequitably distributed income and wealth account for a considerable part of the chronic hunger and malnutrition in a large part of the world. What this means, essentially, is that we in the industrialized north out-eat the people in the south about 4 to 1 in grain, the basic food. Moreover, most of our grain is consumed indirectly as milk, meat, and eggs; and thus we out-eat the poor in the developing countries both quantitatively and qualitatively.

Third, the social and political system in most countries and the policies it generates, as well as the international economic system in general, discriminates against the poor, especially the primary agricultural producer, and thus causes and perpetuates hunger. This is true in both north and south, but is perhaps more poignant in the food-deficit countries because they are much less able to do something about it than we are in the north, and we are not doing a terribly good job here, either. So much for causes. What about recommendations for remedial action now, and preventive action for the future? I think the supply-side factors are essentially technical and can therefore be solved if there is a will to do so.

The demand-side factors are much more difficult because they are, in the end, political. They require us to examine, critically, an international system that we have, by and large, benefited from, and over which we exercise a very large measure of control—more in fact than any other single nation.

This kind of examination has been going on steadily for at least the past dozen years, stimulated by the U.N. World Food Conference in Rome in 1974.

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That meeting, which took place in the midst of the food crisis of 1973-74, highlighted the challenge of rural development implicit in the enormous gap in large parts of the world between people's nutritional needs and their ability to produce or pay for essential food requirements.

The conference recognized that while there was no shortage of food in relation to effective demand, there was also no surplus in relation to nutritional needs. The World Food Conference, in which the United States—including, by the way, members of this committee—played a conspicuous part, agreed that the two sets of problems required immediate and sustained attention, although strategies to deal with them could move on parallel tracks at different speeds.

First, the immediate problem of creating a world food security system via food aid, grain reserves, and improving the terms of trade for food-deficit countries. Second, the longer term objective of increasing food production and improving its distribution in food-deficit countries. That is the systemic development question to which my colleagues here on the panel have referred.

It is a dozen years later now, but it is no less clear that a long-term development strategy is needed that also copes with immediate food problems.

Such a strategy entails some very basic and often difficult economic and political decisions by the governments of food-scarce countries, and by governments and international institutions that want to help them.

Despite considerable progress—and there has been considerable progress since the 1974 conference, including the fact that nearly a billion more people are being fed—we find ourselves still confronting the problem of hunger in a world of abundant harvests, and the problem seems even more threatening and intransigent than it did a decade or so ago. In fact the progress itself has complicated the issue by bringing more developing countries into an international system that seems ever more unmanageable. For example, there is no way, in my view, that the long-term problem of hunger can be solved without some resolution of the $1 trillion debt of the Third World. International trade is no longer expanding, foreign private investment is no longer flowing into the poorer developing countries, and development aid from the industrialized countries is declining.

There is nothing significantly new in all this. It has been laid out many times before, and in much more and better detail in studies by the World Bank, the U.S. Department of Agriculture, the U.N. Food and Agriculture Organization, universities, research institutes, and operating organizations. In particular, this kind of analysis formed the basis of the 1980 report of the broadbased, bipartisan Presidential Commission on World Hunger, in which two members of this committee—Senators Dole and Leahy—participated.

In my view, that report proposed a remedial program that if carried out, would have gone a long way toward avoiding many of the problems we are now facing once again.

It probably would not have prevented famine in sub-Saharan Africa, but it would have put this country and the world in a better

position to act quickly to mitigate the suffering caused by that sad event. That program is still relevant today.

The Commission underscored the view that hunger is more a symptom than problem, emphasized that unless the underlying disease of underdevelopment, or injustice is also treated, there can be no long-term solution to the problem, concluded that the United States did not have a food policy and recommended that the United States—and I quote—"make the elimination of hunger the primary focus of its relationships with the developing countries beginning with the decade of the 1980's." Regrettably, the efforts were not made.

I do not want to imply that the entire responsibility is ours in the United States. The other industrialized countries, as well as the food-deficit countries themselves, share that responsibility.

Nor do I want to ignore our own difficult financial situation with huge Federal budgetary and trade deficits. But I do wish to suggest that eliminating world hunger is a matter of human choice, not impersonal forces.

It is not only a technical problem but a political one. It will cost something, but comparatively little. Surely, if we can contemplate spending $600,000 a minute on arms, we should be able to make a comparative analysis of how much we ought to spend to prevent the scourge of hunger and save the lives of millions of the world's most vulnerable people.

Surely, if we can deal with the intricacies of defense and military strategy, we should be able to figure out a solution to the problem of hunger, not only abroad, but here, and of embarrassing food surpluses. We live in a generation that has split the atom, broken the genetic code, and penetrated space. Surely we can enable hungry people to buy their own food.

In summary, I would say that lack of food is not the problem. There is no shortage. Lack of access to available food is the problem. That means lack of income, lack of effective demand. That means a necessity for a development program.

I was going to conclude this by quoting from the Presidential Hunger Commission's report, but I think I have used up enough time.

We at Interfaith Action believe that the extent, causes, and remedies for world hunger are well known. We have heard them around this table. The remedies are well within the world's competence, if there is a collective will to undertake them.

The United States continues to be in a position to cooperate effectively and even to take some leadership in this area, and we hope it will do so. Thank you very much for your attention.

Senator BOSCHWITZ. We have the collective will, and we were hopeful that we would get some more specific direction with respect to how to expedite. Now we turn to Mr. Ayres.

STATEMENT OF WILLIAM AYRES, EXECUTIVE DIRECTOR, WORLD HUNGER YEAR, NEW YORK, NY

Mr. AYRES. Thank you, Senator. I appreciate the opportunity to testify. I will not read from my statement. I would prefer instead to talk about a couple of very specific questions that you have asked.[1]

I was delighted to hear Marty quote from this Presidential Commission on Hunger. My friend, and partner, the late Harry Chapin, was the one who helped to get that started, and sat on it, and we have a long history, as a group, of trying to deal with these kinds of issues, and to deal with them specifically with the media.

One of the questions that you have asked is, Where is the next Ethiopia?, and no one has addressed it, and I would like to address that one very specifically.

I believe that the next Ethiopia is right next door in the Sudan, and it is not simply in the camps and it is not simply in Khartoum. It is in the south. And it is one of the best kept secrets in America. Most of the people in this room probably know it, but I would guarantee, that if you went out onto the street and asked people, or even if you went around the Capitol here, most people would not say that.

And yet, I have a list of about 18 people who are in the southern Sudan, and who signed onto a statement asking for a cessation of warfare in the southern Sudan so that people could be fed. They estimate that between 2 and 3 million people are in danger of death right now, and we have also heard some other figures that say that between a half a million and a million people have already died.

I cannot verify those figures. But these folks say that it is one of the most drastic situations in the world. Now, if you look back to the Ethiopian situation of a couple of years ago, you remember that there were many people who were trying to get that message out, 2 years, perhaps, before it actually made it onto the NBC Nightly News.

It was only when it made it onto that Nightly News, that it became a media event, and then the administration acted, hundreds of millions of dollars poured into the coffers of PVO's, and we did a remarkable job of helping hungry people in Ethiopia.

I suggest to you today, that the next place where that needs to happen is right next door in the Sudan. Now, over the past couple of weeks I have talked with U.N. people, with people in government, with PVO's, with media people, and the thing that I hear from everybody is, we do not know what to do. We have the food there but we do not know how to get it in. There is a terrible civil war. It is a very dangerous situation.

Well, let's just reflect for a moment because I think that this says something about our own foreign policy, about our aid policy, about our development policy. We have poured hundreds of millions of dollars into the Sudan during the past decade, and what we have done there, of course, is to support a dictatorship which got overthrown recently. Our situation now is that we have almost no power with the new government.

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[1] See p. 171 for the prepared statement of Mr. Ayres.

As a matter of fact, there is an enormous anti-American feeling on the part of that government, not only because of our support of the previous government, but also because of some of the Libyan connections.

I think that is sort of a paradigm of what is basically wrong with our policy in many countries throughout the world, not simply the Sudan, and it is—first of all, we do not take hunger seriously enough. And that may seem like a very simple thing to say, but we pour millions of dollars into it, but in proportion to the need, we do not take it seriously enough.

We do take the military support of these governments seriously enough and we put lots of money into that. We wind up supporting dictators over and over and over again, who get overthrown, as in the case of the Sudan, and many other countries, and then there is enormous anti-American feeling, which loses the kind of power that we can have to exercise any kind of positive influence there. So we are faced with a situation now, which most people believe, who are in that place, is enormously serious, that could reach the proportions of an Ethiopian crisis, even though there are not, quantitatively, as many people involved. But proportionally, an enormous situation, and we seem to be powerless at this point.

The question is, why should we be powerless after these hundreds of millions of dollars of aid have been poured into that country? What I am suggesting is that there are three or four fallacies in our basic policy, and the first one is that we do not take the problem of hunger seriously.

We have not seen it as something that is an obscenity. My former partner, Harry Chapin, used to say that hunger is an obscenity; hunger in America is the ultimate obscenity.

I do not believe that our Government has accepted those positions. Our words may say that but I do not think our actions say that.

Even though we have spent hundreds of millions of dollars, it has not been done in such a way to alleviate this problem, which certainly is a very complex problem. That is the first one.

The second thing is the point that Marty McLaughlin made, and the connection, the cause of hunger. I would imagine, that if you asked most people today, they will say that poverty is at the root of hunger. Well, about 8 or 9 years ago when we were on the Presidential Hunger Commission, we had one great battle to get people to accept that. People were saying no, that is not the problem; it is population and it is a lack of technology; it is this and that.

Now it seems that people are moving to the position of saying that poverty is at the root of hunger. The next part of the connection is not usually made, even though Mr. McLaughlin did make that, which is that powerlessness is at the root of poverty.

That is my second general statement to you, that in fact we have not geared our programs, even though in words we say that we do that—we have not geared the majority of our programs to deal with this question of powerlessness.

It is a very difficult thing to do. It is very difficult to work with poor uneducated people in countries throughout the world. No one suggests that it is easy, but when you do not do that, when in fact you deal with government bureaucrats, or with the elites of a vil-

lage, or of an industry, you do not get to the people who are most affected, and they do not have a sense of participation of being involved in the project.

So even though a project may work technologically—the question of India was raised before, and we have an enormous success story in India from the question of food production. There is no doubt about that. And yet there are more hungry people in India than there are in all of Africa. Why? Because of the powerlessness of the people, No. 1, and because the aid and development programs that have gone on there, even though they have been very technologically successful, and no one would discount that, have not involved those people.

That is true of many, many countries, of most countries throughout the world. A third statement that I would like to make along these lines has to do with the role of women. I think, again, that is something that is beginning to enter into the consciousness of people. It certainly was not the intent years ago to any great extent, and it has been a long, hard battle. It has not been mentioned at all today, as far as my ear remembers.

And that is, that in most of these countries, the role of women is in such subservience, and especially having to do with agriculture, and most especially in Africa, where 80 percent of the food for domestic production is grown by women, we need to make sure that all of our programs take into account the role of women and the participation, the active participation of women.

I would suggest again, that in the past, most of our programs have not in fact done that. The other thing that I would like to suggest—and it speaks to some of the questions that Senator Melcher raised at the beginning—and that is what our policy is trying to do.

In most countries, what we try to do—and not just us, but the World Bank and the IMF, and many other Western countries—we have tried to do two things: develop the industrial base of the country and also the cash cropping potential of that country.

The documents that just emerged from the special session in Africa is basically rejecting that now, after a couple of decades of moving in that direction, and saying, what we need to be doing is growing food for ourselves first, and that has got to be our basic direction.

Certainly, we need to trade; certainly, we need to have currency coming in to buy the other things that we need, but the basic reason for starvation is because we are not growing the food that we need.

We have put too much of our effort into industrial development that has produced—the best crop it has produced is white elephants in most instances. We put too much of our effort into cash cropping, and put ourselves into a situation where we have this enormous debt in most Third World countries.

We are trying to produce more and more food in those countries that goes outside of the country, competing with our own farmers in many instances, as well as European farmers, flooding the market. We are not producing the food that is needed, that other people, in many cases, do not produce.

So I am suggesting that another very fundamental part of the direction of our food programs need to be the production of food for local people. That our aid and development programs need to be focused there, rather than in the cash cropping, especially because of the enormous fluctuation and depression in the commodity markets, at the lowest rate in 30 years. So you find one country after another being in this enormous cycle of having to produce more and more to get less and less.

And so many of the aid programs encouraging them to do precisely that, and that does terrible things to their own people. I think it also does terrible things to our farmers.

So, it seems to me that the basic cause of hunger is, as Marty McLaughlin mentioned, the poverty and the powerlessness that is at the root of it, which prevents people from having the land and the means of growing food, or the jobs to have money to buy food.

There are at least three or four very important directions that we need to take in all of our programs. If time permits, later, I will be happy to talk specifically about the country of Haiti, where there are some AID programs that are doing marvelous things, that are working with people and the people participate in the development of those projects and it helps them to become self-reliant, not only in terms of food but in terms of their own purses. On the other hand, we are pursuing and the World Bank and the IMF are pursuing an overall policy in Haiti that is promoting cash cropping, and promoting industrialization with very, very poor paying jobs, and I think we have to question the whole direction that that policy is going in, and that is just an example of one country among many.

Senator BOSCHWITZ. Well, I had thought that this hearing would be directed more at some specifics, and I am sorry that it was not, but perhaps we ourselves have to be more specific in our requests of witnesses. So I would address my questions, first, to Mr. Von Bernuth.

How do you interact with the programs that we have legislated? Are you able to get some funding under title I of Public Law 480, or section 416? And you speak about what you did in Bangladesh, the Sudan, and Chad, Mali, and other countries. Are you able, in those countries, to help finance what you do through title I, or section 416 to monetize some of that food to expand your efforts?

Mr. VON BERNUTH. The answer, Mr. Chairman, is that we, in Africa, and, with the possible exception of a small percentage of our program in Bangladesh—I am not even sure that we have that—have not had monetization components in our programs dealing with this problem we have had in the last several years in Africa.

In Bangladesh we have benefited from a bilateral title I monetization activity which provided funds for some of the development of the infrastructure that complement the roads built by human labor, paid for with food. Bridges and culverts. That has been paid for with local current receipts from the sale of U.S. commodities. As a general statement, in terms of what we have been trying to do in Africa in the last several years, food resources have been available to us. The money to deliver that food has been much more difficult to obtain, and indeed, the U.S. Government has proposed,

and in fact insisted on cost-sharing arrangements for the delivery of the food, which had frequently exceeded our economic capacity to provide, and I believe the economic capacity of other private voluntary organizations engaged in distributing food.

So that we have not had a lot of access to 416, and we have not been successful at generating funds to manage the food in Africa.

Senator BOSCHWITZ. How do you normally generate funds? Through local appeals in this country? Is that where most of your funding comes from?

Mr. VON BERNUTH. Most of our contributions from the general public come, in this country, through support from the general public through mail.

Senator BOSCHWITZ. Is that where most of your funding comes from?

Mr. VON BERNUTH. No. In fact most of our funding comes from grants and contracts which we have both with the U.S. Government, with the U.N. family of agencies, and particularly the U.N. High Commission for Refugees, and with some European governments, particularly the Norwegian and the Dutch Governments, and usually it is funds which are specified for particular activities.

Senator BOSCHWITZ. We spoke at great length, and the Senator from Montana was one of the principal opponents of the idea of monetization of some of the food aid that we give. Have you made efforts to expand that with AID and other agencies?

Mr. VON BERNUTH. Yes, we have, and, in general, AID has been extremely supportive of CARE's efforts to add monetization components to our projects.

As an example, in Bangladesh, we requested several years ago a monetization component to our Food for Work project there, to guarantee continued funding for bridges and the culverts, which we considered to be essential, so that the roads that we are building have a developmental impact, rather than simply a generation of employment effect.

The agency committee that makes decisions on these sorts of programmatic requests, however, found AID in a lonely minority supporting our request, and in fact we did not get approval for a monetization component to that project, though everybody recognized that it had a high developmental impact.

Senator BOSCHWITZ. Are you doing anything in the Sudan?

Mr. VON BERNUTH. We have had an extremely large program in the Sudan during the last several years. I believe that we delivered food valued roughly at $90 million during our last fiscal year, and reached—I believe a million and a half persons—in that country, working both with refugees from Ethiopia, in the eastern area of the country, and in the drought-affected area around Kordofon in the western part of the country with Sudanese.

In addition to our food distribution activities there, distributing both U.N. food and U.S. Government food, we have a number of developmental activities, particularly in the areas of tree planting, agraforestry water projects and other attempts to regenerate the economy. It is one of our largest operations.

We do not operate programs in the southern part of the country for the security reasons which Bill has already talked about.

Senator BOSCHWITZ. Mr. Ayres talks about the war that is going on there, and I agree that that is probably the next unreported place of hunger. I remember, when I came to the Middle West in the late 1950's, that I put together the southern Sudanese student fund in this town where I lived because there were some students from southern Sudan, and at that time the war was going on. And that is 30 years ago, nearly.

Has it become more intense as of late?

Mr. AYRES. Yes.

Senator BOSCHWITZ. I am not aware that it is particularly more intense now than it was.

Mr. VON BERNUTH. I personally cannot address that issue. I would refer it to Mr. Ayres.

Mr. AYRES. It is much more intense than it was. The Libyans are involved in it now on the side of the government. As you know, it is religious strife, an ethnic one. It is an economic one, you name it. There are a number of different factors involved.

But one of the basic factors of course is that with the fundamentalist Moslem government, they impose the Shia, which is the Arabic law, Moslem law, which Christians and Animists in the south reject. It is the cut your hand off, and women wear veils, and all that that entails.

There has been a longstanding economic problem as well with the north pillaging the south, of the south wanting to have some sort of autonomy and greater say in the government. So there is a rebellion going on, and one of the problems, of course, is that the people get caught in the middle.

Land is destroyed, crops are destroyed by rampaging armies on one side or the other, and now the rebels will not allow food to enter in because they feel that the food is being used by the government to feed soldiers, which, according to what we hear——

Senator BOSCHWITZ. The problem is not much different than what we had in Ethiopia.

Mr. AYRES. Yes, in one way. And the interesting thing, Senator, is that in Ethiopia, for the longest time, people said, "Well, you know, what can we do? It's a Marxist government." But when the world community got itself together there was an awful lot that did get done, and we did a very good job there on the first level of aid. There is still the problem with development.

What I am suggesting is that all the people that I have talked to—and maybe there are others who do not feel this way—but the people that I have talked to at the United Nations, and every place else, feel that their hands are tied at this point, and I do not have the solution to it by any stretch of the imagination.

But the point is: Do we simply say that our hands are tied while hundreds of thousands, perhaps, millions, of people die? And that is a place where, in the past, the United States did have a very real presence, and it seems that right now we do not.

Senator BOSCHWITZ. Does the World Hunger Year, as an organization, get involved in distribution of——

Mr. AYRES. No, we do not. That is not what we——

Senator BOSCHWITZ. What do you do?

Mr. AYRES. We are an educational group, largely. We also deal with hunger in America on a grassroots level. We have established

lots of local groups, and we deal, for the most part, with the relationship between hunger and the media, and one of the reasons we are so interested in the Sudan was because we yelled and screamed for a couple of years when people did not listen about Ethiopia, and we do not want that to happen again in terms of the Sudan, or any place else.

Senator BOSCHWITZ. Do you have some comments, from AID's side, first, about the Sudan, and then I will ask a followup question about the monetization?

Ms. BLOCH. Yes, Mr. Chairman.

Senator BOSCHWITZ. What you are doing with respect to the Sudan.

Ms. BLOCH. AID is very much aware that there is a serious problem in southern Sudan. I did not want to preempt my boss, AID Administrator Peter McPherson, who, today is issuing a press statement basically calling for a food truce in southern Sudan.

Without a food truce, it is not possible——

Senator BOSCHWITZ. Without?

Ms. BLOCH. A food truce.

Senator BOSCHWITZ. Food truce.

Ms. BLOCH. Without such a truce, there is no possibility of getting relief workers into the region to deal with the problems. I would beg to differ with Mr. Ayres on his conclusion that the Sudan situation is just the same as Ethiopia's. It is correct, that the U.S. Government has worked for many years with the Government of Sudan. We continue to do so with this present government. However, I should point out that the Sudan is, and continues to be, quite self-reliant on food production, unlike Ethiopia, whose Marxist economic policies have done little if anything, in terms of increasing the production, or the better livelihood of the people.

Sudan, this year, has a surplus. The problem in the Sudan is that the surpluses are only in certain regions of the country, and it is very difficult to move commodities from some regions to others, particularly to the south. I think that is a key difference, and I would hope that organizations such as yours, Mr. Ayres, would support, and would lobby public opinion, so that we could get some kind of truce going, to get the food that is needed to the people in southern Sudan.

But again I would emphasize, I do not want to preempt my boss. I do not know when that statement is going to be made, but it will be some time today, I understand.

Senator BOSCHWITZ. I have heard considerable criticism about AID's not being very cooperative with PVO's, for the purpose of providing some moneys to the PVO's through so-called monetization.

Would you tell me how you react to that, and what the plans of AID are for this coming fiscal year.

Ms. BLOCH. Yes, sir. I am sorry to hear that PVO's feel that AID is being uncooperative. Let me first say that the title II program is primarily a program to provide food for vulnerable populations.

We have the title I program and the title III mechanism to provide concessional sales to generate local currencies.

Senator MELCHER. Miss Bloch, would you yield at that point.

Ms. BLOCH. Yes.

Senator MELCHER. PVO's must make application, and they are in some respects sort of—if you complain to Congress, for instance, there is retribution. I do not know whether you are aware of that, but you ought to be.

Might I ask you, why CARE-India's program to feed 10 million kids in nine different states in India, which was of long standing, which was succeeding well, was arbitrarily cut to 5 million, and furthermore, after that step was taken, the CARE-India was told it would be phased out.

Now, you wanted specificity, Rudy, and this is specificity. If CARE comes to Congress and complains, there is going to be some reluctance on the part of many AID people to deal with CARE. All PVO's are subject to that. They are not free spirits. Year after year they make their applications and hope for multiyear agreements, which I suspect is negligible, or declining rather than increasing as we asked, or we thought we directed in the farm bill. But specifically, why would you be cutting a successful school feeding program for 10 million kids in India, abruptly down to 5 million, and then say, "Well, phase it out in the next 2 years"?

Ms. BLOCH. In fact Senator Melcher, Dick Lautis, and I were just having a discussion about this particular issue during the recess, and we concluded that CARE and AID were on the same track with respect to the CARE-India program.

Senator MELCHER. You are not on my track, and I do not think you are on the track of those hungry kids over there.

Ms. BLOCH. I think you have been misinformed that we are trying to terminate the program. In fact CARE is one of the PVO's with whom we work the best and——

Senator MELCHER. Are you going to go back to the 10 million?

Ms. BLOCH. I am not aware of the figure, exactly, and I can check that for you, but our——

Senator MELCHER. You do not have to check it for me. I know.

Ms. BLOCH. And I would let Rudy Von Bernuth speak to this, too. The priority we have identified in cooperation with the Government of India, as well as CARE, would be on an integrated child development scheme. We are putting our priorities there, and it is something that——

Senator MELCHER. I understand that, everybody would have that priority What I am asking specifically, since we have so much and the program was already there, why aren't we continuing it?

Ms. BLOCH. We are on a phasedown mode with the CARE program in school feeding because we have——

Senator MELCHER. That is what I am asking.

Ms. BLOCH. We have negotiated with CARE and the Indian Government since 1981 on an orderly process of phasing this program over to the Indian Government by 1990.

Senator MELCHER. But why?

Ms. BLOCH. Because if you look at India's capacity for production—India now is a food donor itself. It is a program that the Indian Government can very well take over while we target our resources on the higher priority of, particularly, child survival.

Senator MELCHER. I am not arguing about child survival; we have plenty for that. Why phaseout a successful program when CARE did not want it phased out?

Ms. BLOCH. Well, I would let Mr. Von Bernuth speak to that. I will just stress, that in terms of our evaluation, we have found that the school feeding program did not reach the most malnourished children.

Senator MELCHER. Speak to it.

Mr. VON BERNUTH. It is a very complex set of issues, but I would beg to disagree with Julia on a couple of aspects of what she said. In the first place, dealing with the last point, obviously, the relative benefits of different kinds of feeding programs can be debated and we certainly would recognize, as does AID, that the primary importance has to be on the most vulnerable groups, who are not necessarily the school children.

However, studies in India have shown that CARE's school feeding programs have had, particularly in the poorest areas of the country, a measurable impact on the enrollment and attendance of women in the school systems, which is definitely an important factor in terms of India's attempts to improve the role of women within that culture, and also to control its population growth.

Because there is a very high correlation between level of education and number of births. Second, certainly the current construction of the phaseout plan of the school feeding program has been developed with consultations on the part of AID with both CARE and the Indian Government.

But the pace of the phaseout, the commodity levels available to us, have been predetermined by AID, and we have had to work, in terms of developing a plan for a phaseout of programs, within those commodity levels that we have been given. If CARE had its druthers, and if the Indian Government had its druthers, we would probably have—we did attempt to negotiate for. We would certainly prefer to have more food and a different kind of a plan for dealing with those school feeding programs.

Senator MELCHER. Mr. Chairman, I want to tell you this situation, because I think it is instructive. I had lunch with the India-CARE director, Doug Atwood, a few weeks ago, and I probably should not be saying this in order to protect him, but I am trusting you, Mr. Chairman, and a lot of the rest of us who sit around this table, to have one united voice if any retribution is taken against him.

He has been selected to be one of the people to visit China on behalf of CARE, in October.

Senator BOSCHWITZ. He?

Senator MELCHER. Doug Atwood. Now this is the first time that the Government of China has invited a PVO to come and visit them, to see whether China wants to have a private voluntary organization working in China. That is a very dramatic shift, I believe, on the part of the Government of China, to say, "We may need the type of assistance that CARE has given to so many countries during the past 41 years throughout the world."

It is just the same as the Soviets saying, "Well, Catholic Relief Service, come on in here; we can't handle it. We may find that you can help us."

Atwood says that he was riding in an automobile in India with one of the AID officials, to look at the school program, and was told, in midsummer, or whatever the time is for their school year—

just a few months before the school year was going to start—"Well, you know, we're phasing this down, cutting it in half." and expecting them, all of a sudden, to arrange to lop off 5 million kids from school lunches in these nine States in India.

I do not know whether it happened that year or whether it happened the next year. But CARE wanted that program, and still wants it, and the Governors of those nine States wanted it to continue.

I noticed in your testimony, that you put a quote around this surplus food available to India. That is an absolute myth. Just because the Government of India chooses to send a token shipment to Africa, which is welcomed, does not mean that the level of nutrition is good in India. It simply is not.

Now the other part of this is that the level of reducing the other 5 million kids has already been established. This stuff about children of preschool age being the primary target should not be an excuse. They are the first target. The second one is the school kids. Nobody that is involved in this, CARE, or otherwise, wants that phased out.

There is not enough food there for a good, adequate nutrition level in India. With good luck, it will be another generation before that ever happens.

I think we have to get to the specifics, even though it is hard to get to it. I would not have had this if I did not happen to have lunch with the CARE director for India.

Senator BOSCHWITZ. Returning for a moment to the statement Mrs. Chang Bloch made. She says that the priorities are greater elsewhere, and also that India has become self-sufficient in food.

Senator MELCHER. It is a myth.

Senator BOSCHWITZ. I agree that their diets are very nominal.

Senator MELCHER. Very minimum.

Senator BOSCHWITZ. Yes, minimum.

Senator MELCHER. And this school lunch program was not replaced by another school lunch program.

Senator BOSCHWITZ. By a local one.

Senator MELCHER. There are nine different States of India in which this program was operating and it was not replaced.

Senator BOSCHWITZ. What was our cost of that program? What was the cost to the American Government for that program?

Ms. BLOCH. Rudy, you would have the figures better than I.

Mr. VON BERNUTH. The school feeding program in 1986 which had 5.2 million children provides 34,178 metric tons of food valued at $8½ million. Previously, the school feeding program was about twice the size.

Senator BOSCHWITZ. How much?

Mr. VON BERNUTH. $20 million worth of commodities a year.

Senator BOSCHWITZ. What were the commodities that were——

Mr. VON BERNUTH. Vegetable oil and bulgar wheat.

Senator BOSCHWITZ. How do you eat that?

Mr. VON BERNUTH. There are a number of ways you can eat it. You can make a porridge out of it. We also bring in oil, and several other grains including some rice.

Senator BOSCHWITZ. Oil for a school lunch program?

Mr. VON BERNUTH. The school lunches are largely prepared to use the oil to cook it in.

Senator MELCHER. Soy oil?

Mr. VON BERNUTH. Soy oil.

Senator BOSCHWITZ. And so——

Mr. VON BERNUTH. I was just going to say: Some of the foods that we bring in are added to indigenous foods and turned into indigenous products which are then served to the children, where the State governments are able to come up with some food inputs of their own.

Senator BOSCHWITZ. You wished to add something?

Ms. BLOCH. I was going to say that India is still the largest title II program that we have in the world, comprising about $75 million. We are not going to be phasing over the school feeding portion of the CARE program until 1990. The process is an ongoing one that will take about 10 years. And we are looking, Senator Melcher, because of your interest in 416, because 416 cannot substitute for title II, at perhaps new potential uses for 416 in India.

Senator MELCHER. Pardon me for interrupting. Now why would you say 416 cannot be substituted?

Senator BOSCHWITZ. It can, she said.

Ms. BLOCH. According to the law——

Senator MELCHER. Can be substituted? You are affirmative?

Ms. BLOCH. No, no. According to our reading of the law, now—and you are maybe more of an expert than I—in the 416 legislation, it says that 416 must be additional.

Senator MELCHER. Must be additional.

Ms. BLOCH. Additional. Yes. That is our lawyer's interpretation.

Senator MELCHER. Additional? Well, additional means to me, and I think to everybody on this committee, means just go ahead and do it, over and above what title II is.

Ms. BLOCH. Meaning that if title II levels go down, you cannot use 416 to make up for that reduction. It has to be additional to.

Senator MELCHER. You have a peculiar construction of the law.

Ms. BLOCH. We have to rely on our lawyers.

Senator MELCHER. What lawyers, Mel, would you believe, that would advise her out of the General Counsel's Office, that that is what the law is?

Mr. SIMS. You are over my head on this one. I will have to defer. I thought we could use 416 when needed, and as a supplement to Public Law 480.

Senator BOSCHWITZ. Well, that is certainly our concept of 416. I would direct the staff, on both sides, to look into the background, and then to the legislative intent that was indicated by any of our hearings.

Senator MELCHER. You mean, if they want to use it, use it?

Senator BOSCHWITZ. Well, I thought that that was the purpose.

Senator MELCHER. That is the purpose. And if there is anybody in Agriculture's General Counsel's Office, that construes it any differently, I would like to see him.

Senator BOSCHWITZ. We ought to direct the staff to take a look into the legislative background and history, and to see what has led the counsel to come to such a conclusion.

Senator MELCHER. I do not think he has. I do not think anybody in the General Counsel's Office at Agriculture, has ever given that conclusion, at all. Julia, I do not know who you are talking about as the lawyers, but I do not think you will find one lawyer in the General Counsel's Office at Agriculture who would agree with your statement.

And it says something about how AID runs their own shop. Why you would vaguely say that is what the legal interpretation is, to this committee escapes me. You had better be looking at your own lawyers. Nobody could construe that language that holds himself as a lawyer, as you have just enunciated it here.

Have you any of your staff that would like to respond to that? Now is the time to do it. Does any of your staff want to respond to that?

Ms. BLOCH. We do not have any lawyers here.

Senator MELCHER. Well, you do not need lawyers. I am not a lawyer.

Ms. BLOCH. I am not either.

Senator MELCHER. But I can read the English language. Senator Ervin said this: "It's my mother's tongue."

I would like to bring up one or two other points. I think you are speaking in generalities, Julia, when you say that food aid is important for the revival of a country, and particularly the economy in an individual country. But then you said that dumping must be avoided. I do not believe either you, or Mr. McPherson, are capable of making those judgments.

You are not saying that you made those judgments, so I am not trying to put words in your mouth. I want to bring up Kenya as an example, which was cut back on the amount of title II because of privitization.

Also, Mozambique, which was going to be cut back on title II because of privitization, cut back well below each country's needs. This was last year. Both governments were not pleased by this situation.

In the case of Kenya, they got along partly by reducing their request, and a deal was made. Mozambique chose to do something different. What they did was get Mel Laird to come over and look at it, and spend a few days with them, look at the situation and then come back, and say to us, "Old colleague Shultz, you know that situation in Mozambique cannot be met by the amount of food that AID is willing to send." And quickly, that was resolved in favor of Mozambique.

These are examples where neither government was completely trusted. The one that arranges to have it reexamined by somebody that is trusted, namely, Mel Laird, gets it resolved quickly.

Another example is the case of the Philippines where, because of doubts about the Marcos regime, and the cronyism, the government was hard to deal with according to AID.

Now we have the new government which is trusted by AID and by the State Department, by our Government, and by our Congress. And yet, when it comes to a simple little effort to try our 108 program there. You reject it on the basis of, "We can't make the judgment yet because we don't know the facts."

This is what gets in the way of doing the right thing at the right time. It is now August. You still have not tried the 108 program.

Ms. BLOCH. Senator, I think that you attribute more power to AID than we have.

Senator MELCHER. Well, when it does not get through AID, it does not get anywhere.

Ms. BLOCH. Where Public Law 480 is concerned, all decisions are made in an interagency committee, and we are but one member.

Senator MELCHER. Still, if it does not get through the AID mission in Manila or whatever the capital is of Mozambique or Kenya, it does not get anywhere.

Ms. BLOCH. Some of the proposals can come directly to Washington and as Rudy Von Bernuth said, "Sometimes AID is a very lonely voice on that committee."

Let me speak, briefly, to Mozambique and Kenya. You seem to have many more facts at your disposal than I do. But I would not put Mozambique and Kenya in the same category.

Senator MELCHER. The privatization issue was at stake in both.

Ms. BLOCH. There is no question that this administration supports privatization, but we would never hold up food shipments in emergency situations where people's lives are at stake.

In reference to Mozambique—I did not know about Mel Laird. He is a very influential man, as you said, but from what I know about the Mozambique program, basically, it is practically entirely an emergency response, and under emergency situations, we do not negotiate for conditions.

Senator MELCHER. This was testimony given in a little hearing we had last September just to receive this type of testimony from a number of governments. You may not have been aware of that, but that is almost a year ago. It was a public hearing where people sat as audience and, both of those situations were adequately described in testimony by people from those countries. In both instances, privatization was a factor. Kenya did not receive as much as it wished to receive. Mozambique did get the larger amount but they were wise enough to call in somebody who would be trusted by our Government, and that was Mel Laird.

Ms. BLOCH. We do not always provide whatever a country may ask for or may want, because perhaps the conditions on the ground do not warrant their requests. And I think that our Food Aid Program in the past has suffered tremendously from criticisms of creating dependencies and disincentives which, to this day, we hear regularly from many quarters.

In the 30 years of the program, Senator, we have tried to improve its administration so that we use the food for purposes for which the Congress intended, and for which we can be proud, and so that it would be used in fact as part of the development resources of the country.

I think that we still have to be very, very careful that food aid does not displace commercial sales, does not create unnecessary dependencies, and does not, in fact, present a disincentive to local production. Because I think we are all agreed that when a country's agricultural production increases, its economic condition improves, and it can help itself as well as provide markets for our

products. Without that, it is not possible. And we try to do our best, so that the food is used properly.

Senator MELCHER. In general, Mr. Chairman, that is a good general statement, wholly lacking specificity.

Senator BOSCHWITZ. Do you have further questions? One of the things that has resulted from these hearings is some confusion, on my part, as to what takes place, and why it takes place, why other things do not take place, or are terminated. As the example, a workdown is the example you have given in India.

I will take a very careful look at a number of these problems, and I probably will go country to country, and I would invite your staff and yourself to be involved together in this endeavor, so that we can have a sense that our food aid, quite aside from its impact on domestic prices, and so forth—but that is an added bonus of it, if it really occurs.

We will look at it quite carefully to see whether or not we are maximizing it, and whether or not the monetization or the privatization, that should occur in the strenghtening of the infrastructure of the country involved. It is not clear to me what we can do with some of the private voluntary organizations. It is not clear to me whether or not there is not a conflict there that private voluntary organizations of course would like to get their hands on more money through the monetization process, and how that plays out. But I would invite any of the witnesses, any of those present, to try to illuminate this committee and staff and Senators, so that we can more effectively provide food aid, and that we can get a little ahead of the curve, whether for the Sudan, or otherwise.

And so that we will continue, and go beyond this hearing, and try to develop our own information bases, so that we can more effectively and intelligently deal with the question of food aid and hunger.

Senator MELCHER. Mr. Chairman, I am very pleased to hear you say that, and I not only will want my staff involved, I want to be involved directly myself. The only way to learn what the needs of these countries are is to learn whose assessment you think is correct.

Senator BOSCHWITZ. The assessment are confusing.

Senator MELCHER. The assessments are indeed confusing, and the only way for us to learn whose assessment we believe is accurate and closest to the truth, and to be relied on, is frankly, by knowing the country and there is no way of knowing them without going there.

I do not know when you plan to do this, but I will attempt to make my schedule such that it agrees with yours. I only have one suggestion, to begin with, and that is, our visitations have to be, as Senators, arranged within the country, on our own terms. We cannot be just set up by either the State Department or AID. We need to deal with the ambassador of each country and his staff, and the AID people in that particular country. But we certainly have to arrange our own appointments to the extent that we know who we are talking to, and that we get to talk to people who will really level with us.

Every country that is a recipient of title II has to get along with the AID team that is there, and that, sometimes, walls off Congres-

sional visitations from getting the broad input that is where they really let their hair down and tell you what the situation is.

Senator BOSCHWITZ. Well, fine, we will do that, and I would look forward to doing that together with you.

We once again have a vote on, and so we should terminate the hearing at this time. We thank the witnesses for coming, and we look forward to future correspondence and conversation with you.

The hearing is adjourned.

[Whereupon, at 12:35 p.m., the subcommittee recessed, to reconvene at 9:30 a.m., Tuesday, September 16, 1986, in room 332-A, Russell Senate Office Building.]

U.S. FOOD AID PROGRAMS AND WORLD HUNGER

Use of Food Aid for Economic Growth and Market Development

TUESDAY, SEPTEMBER 16, 1986

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:45 a.m., in room 332, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senators Boschwitz, Dixon, and Zorinsky.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. The subcommittee will come to order.

This morning's hearing is the third and final hearing of a series that we have had focusing on world hunger.

This particular hearing deals with how food aid can be used to promote economic growth in recipient countries, and how food aid may be used to develop markets for U.S. farmers.

Some people misconstrue the meaning of that by saying that our food aid has an intention that is not very humanistic, perhaps. Not so, because the only way that one can really increase the living standards of the people involved is to increase the economic growth of those recipient countries.

If we can do that through food aid, we not only improve the lot of the people who are there, but we also create markets, and there is nothing wrong with accomplishing both of those ends. But you really do not create markets unless you create some wealth, so that people can buy, and if our food aid can help in doing that, that indeed, is a noble cause.

This morning's hearing will examine the effects of food aid on recipient countries. It is easy to crush a fragile agricultural economy with food aid. Even though the agricultural base of most recipient countries does not provide all the food that is needed, normally, it provides most of the food. When a large quantity of agricultural commodities enters a developing nation, it can drive down the prices and lead to lower incomes for farmers, and drive those farmers out of business.

Food aid can also shape politics. It may allow a repressive government to maintain the status quo, or worse, to use food to coerce or manipulate people, and we have seen some of that, at least we think we have, in recent months.

The problem of world hunger will not be solved by growing more food or distributing more food, but only by finding means to build independence.

The challenge of food aid, and other foreign assistance programs, will be to create economic growth where it is most needed, among the poorest of the poor.

America's experience of more than 30 years in food aid has brought all these problems into focus, but they will not be solved by abandoning the program. Instead, we should structure them as carefully as we can with respect to each country and with respect to its culture, and minimize the adverse effects. Our food aid programs have had many successes. South Korea is one. Mexico, Brazil, India, are others.

We will continue to have even more, if we learn from the past, and proceed carefully with these programs.

Today's hearing should shed some light on whether our past experiences with food aid have promoted economic growth, and where they have not, or where limited successes were outweighed by adverse effects. I look forward to hearing the various witnesses and getting some insight into the successes and failures of specific countries. I hope that our witnesses will be as specific as possible and examine the overall success of food aid in promoting economic growth. We need to look at ways our food aid can be better used to promote such economic growth. I expect some witnesses will testify that food aid actually deters economic growth by depressing local farm prices, and supporting counterdevelopment policies of local governments.

We will also examine ways to avoid those adverse effects. Specifically, we will hear testimony about our experience with food aid in India, South Korea, Ethiopia, and Taiwan.

Another item on our agenda is market development, and under what circumstances developing countries become better customers for our farmers.

I would like to thank all the witnesses for the time they have taken, and pardon me for being somewhat late. I had a very interesting meeting this morning, at breakfast, with Paul Volcker. We try to have these on an ongoing basis and his attitudes on these matters was quite enlightening.

Our first panel consists of Nicholas Eberstadt, a visiting scholar at the AEI, and if you will just sit up here. Yonas Deressa, president of the Ethiopian Refugees Education and Relief Foundation, and Hannan Ezekiel, coordinator for food aid research of the International Food Policy Research Institute.

Senator Helms, who intended to be here, is having a problem with his eye, and therefore has to be at the doctor's. He wishes to insert his statement for the record. Senator McConnell also has a statement to be inserted in the record.[1]

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[1] See p. 174 for the prepared statement of Senator Helms and p. 176 for the prepared statement of Senator McConnell.

We will proceed, first, with Mr. Eberstadt. Your testimony is still being xeroxed, I understand, Mr. Eberstadt. Is that correct?

Mr. EBERSTADT. Yes, sir.

Senator BOSCHWITZ. We have the testimony of Mr. Deressa. Am I saying that correctly?

Mr. DERESSA. Yes, sir.

Senator BOSCHWITZ. If you would proceed, please.

STATEMENT OF YONAS DERESSA, PRESIDENT, ETHIOPIAN REFUGEES EDUCATION AND RELIEF FOUNDATION, ALEXANDRIA, VA

Mr. DERESSA. Mr. Chairman, distinguished members of the committee, good morning.

On behalf of 42 million Ethiopians still threatened with famine, trapped in poverty, and oppressed by the most absolute tyranny my country has ever known, allow me to express our profound gratitude for this hearing.

About 2 years ago this October, the free world began to receive the first extensive media reports of Ethiopia's catastrophic famine.

Despite the frantic efforts of the Communist regime, first to deny and then to minimize the famine, the unprecedented exodus of more than 2 million starving Ethiopian refugees to the Sudan and Somalia soon convinced the world that a tragedy of immense proportions was unfolding.

The reasons for the tragedy seemed unclear to the peoples of the free world. Indeed, even now, despite front page newspaper coverage and extensive radio and television treatment of the famine, most Americans, including some prominent opinion leaders, are confused or thoroughly misinformed about the nature and extent of the Ethiopian famine, its cause, and the course of action needed to prevent its recurrence.

But if they did not know the reasons for the famine, the American people understood immediately what the short-run solution was. They began to rush food relief to the stricken Ethiopians. More than $5 billion has been raised by international relief agencies since 1984, in addition to aid programs from Western governments, such as the U.S. Government's Public Law 480 program.

It is beyond question that without this generous humanitarian assistance, upward of 8 million Ethiopians would have died from starvation. This vital food aid, grudgingly distributed by the Communist regime, is all that stands today between the Ethiopian people and certain death. And make no mistake about it, the Ethiopian people still desperately need relief.

The same regime that once told us that there was no famine in revolutionary Ethiopia; the same regime that in September 1984 squandered more than $100 million in celebration of the 10th anniversary of the revolution while 1,000 children were dying of hunger each day; this same regime now wants the free world to believe that the famine is over, that its totalitarian resettlement policy is working, and that all it needs is Western trade and Western development aid, with no strings attached, of course.

Should such aid be forthcoming? That, I understand, is the question before the committee today. Before we answer the question: Can U.S. food aid be better used to promote economic growth? let

us try to assess the impact of U.S. food aid to Ethiopia since the coup d'etat of September 1974.

In assessing the efficacy of U.S. food and development aid to the Communist regime, it is important to bear in mind five terrible but fundamental facts.

One. Since 1975, an estimated 1,800,000 Ethiopians have died of hunger or its effects—exposure, summary execution, indiscriminate bombing and shelling, and deliberate atrocities on the part of the Mengistu Haile Mariam regime. At least 100,000 of these deaths occurred during and after resettlement between October 1984 and today.

Two. While international relief agencies poured more than $5 billion in food aid into the country, the Ethiopian Government has purchased some $5 billion worth of arms from the Soviet Union. It maintains the largest standing army in Africa—seven times the size of the army under Emperor Haile Selassie—and diverts most of Ethiopia's economic resources to military expenditure.

Three. Since 1983, the Communist regime has maintained a military blockade against large areas of Eritrea and Tigre, areas controlled by resistance forces. Crops in these areas have been deliberately destroyed, livestock slaughtered, and farm tools seized by Government soldiers and police in an effort to starve out resistance forces and the farmers who support them.

Only when threatened by the U.S. Congress with real economic sanctions has the Ethiopian Government relaxed its blockade sufficiently to allow some relief into these areas. Even so, refugees report that many Ethiopians are still being driven away from feeding centers at gunpoint by Government troops.

Four. As a means of political control, and as a propaganda exercise to convince Western public opinion that it really cares about famine, the Communist regime in 1985 began a forced collectivization program called "villagization."

Described by the dictator as "one of the pillars of the revolution," villagization in Ethiopia conforms to the classic Stalinist pattern. Farmers are collected by gunpoint by party cadres and abducted to Government collectives where they labor as virtual serfs.

Much of their time is wasted in indoctrination sessions conducted by local party officials, and they have little real incentive to produce. Ethnic Oromos have been displaced from ancestral homes to make room for Tigre and Amhara conscript farmers. Obviously, it is impossible to regard Ethiopian serfs as farmers in the American sense of the word.

Despite the total failure of these collectives as productive enterprises, the regime has announced its plans to villagize up to 30 million Ethiopian small farmers. In response to this totalitarian program, more than a million peasants, at the rate of 1,000 a day, have fled and continue to flee into Somalia.

In light of these facts, the committee cannot assume that the present Government of Ethiopia and the Government of the United States have the same goal in mind concerning food and other development aid. The U.S. Government wants to save lives; the Communist regime wants to kill its enemies, regardless of how many women, children, and other noncombatants die in the process.

The U.S. Government wants to promote a peaceful, democratic, and economically stable Ethiopia, a future market for U.S. agriculture and industry; the Communist regime and their Soviet overlords want to create, and in fact have created, a militaristic totalitarian state, a future base for Soviet expansionism in Africa from which they can further threaten the security of the United States and its allies.

The Ethiopian Government wants Western food and development aid in order to feed its cadres and soldiers, and control the country without making any political concessions to the peasant farmers who comprise almost 95 percent of the population. A Western cutoff of aid would mean the prompt collapse of the Communist regime. It would also, tragically, mean starvation and death for millions of Ethiopians, unless food supplies were routed through those Ethiopians who are most interested in seeing it reach the regimes starving victims.

I refer of course, Mr. Chairman, to the antiregime resistance forces now active in 10 of Ethiopia's 14 Provinces. These courageous men and women are the real object of the regime's murder-by-famine policy. To end the famine on Mengistu Haile Mariam's terms is to acquiese to the complete destruction of the democratic resistance and the mass murder of millions of Ethiopian men, women, and children.

Resistance volunteers could easily be supplied with humanitarian aid through the refugee camps of the Sudan and Somalia. This is the only way that the rebel-held areas will ever be supplied with enough food to support the population. The Communist regime will never permit really effective famine relief in those areas, under any circumstances. For they know well, that if rebel-held areas become self-sustaining, those areas will grow in size until all of Ethiopia has been liberated.

Mr. Chairman, in 1983, as the Ethiopian regime was launching its "Red Star Over Ethiopia" military campaign, a campaign aimed at creating conditions of famine in the northern highlands, the Senate Agriculture Committee was holding hearings concerning the Ukrainian holocaust, Stalin's deliberate murder of nearly 10 million Ukrainians by famine in 1933.

At that hearing you heard the testimony of eyewitnesses, like British Journalist Malcom Muggeridge, to a policy of deliberate mass murder by means of famine. Millions of Ukrainians went to their deaths because the free world turned its head and pretended not to know. Indeed, it was that very year that the U.S. Government chose to extend diplomatic recognition to the Soviet regime.

Those Western diplomats and political leaders who knew what Stalin was doing in the Ukraine, and elsewhere in Russia, rationalized their cooperation with the Communist regime as a pragmatic approach to the problem. Given time and Western technical development, Western leaders optimistically stated, the Soviet regime would evolve into a civilized progressive member of the family of nations.

Time has demonstrated how much progress has been made by the Soviet regime, a regime that still holds more than 10 million of its own citizens in slave labor camps; a regime that casually shoots down civilian airliners, holds foreign correspondents hostage for its

own spies in the West, and wages a ruthless war of occupation against the people of Afghanistan.

Mr. Chairman, Western aid and trade has not changed the Soviet regime and it will not change the Communist regime in Ethiopia, except to make it stronger. The only hope for change favorable to the interest of the United States, and consistent with a policy of a free people is humanitarian aid to the resistance forces in Ethiopia, and the complete severence of U.S. aid to the Communist regime.

That is why I conclude my testimony with an appeal that you support Senate Concurrent Resolution 115, introduced by Senator Trible and Senator Boschwitz.

I would also refer you to the report by the Ethiopian Refugees Education and Relief Foundation read into the Senate record, recently, by Senator Hatch.

Mr. Chairman, the U.S. Congress had to wait 50 years before it learned the terrible truth of the Communist man-made famine in the Ukraine.

I thank God that this Congress has had the courage to face the present Communist-fostered famine in my country while there is still time to avert it.

Thank you for your courtesy and attention.

Senator BOSCHWITZ. Thank you very much, Mr. Deressa, for that very good, and, certainly, emotional and appealing statement, we will get back to you with questions, after we hear the other members of the panel.

Mr. Eberstadt, is your testimony now available?

Mr. EBERSTADT. I believe it has been handed to you, sir.

Senator BOSCHWITZ. It has? What is this, Mr. Eberstadt?

Mr. EBERSTADT. That is a chapter from a book by the Heritage Foundation titled "U.S. Aid to the Developing World," which pertains——

Senator BOSCHWITZ. Are you going to read the whole thing?

Mr. EBERSTADT. Excuse me, sir?

Senator BOSCHWITZ. Are you going to read the whole thing?

Mr. EBERSTADT. No, sir. I am just going to make a few brief remarks, based on that testimony.

That chapter pertains to the use of food aid for development assistance, humanitarian assistance, and security assistance.

Senator BOSCHWITZ. And it is a chapter in——

Mr. EBERSTADT. It is a chapter from a book titled "U.S. Aid to the Developing World, a Free Market Agenda," edited by Doug Bandow.

Senator BOSCHWITZ. May I see it?

Mr. EBERSTADT. The chapter deals with improving the effectiveness of U.S. foreign aid, and pertains to improving the effectiveness of food aid, among other things, sir.

Senator BOSCHWITZ. An extra copy? Is it?

Mr. EBERSTADT. Yes, sir.

Senator BOSCHWITZ. Fine.

STATEMENT OF NICHOLAS N. EBERSTADT, VISITING FELLOW, HARVARD CENTER FOR POPULATION STUDIES AND VISITING SCHOLAR, AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH

Mr. EBERSTADT. Mr. Chairman, it is an honor to be invited here this morning. I just want to make a few brief remarks pertaining to my written testimony.

I want to mention, first, that the word "development" often is misused in contemporary discussions of poverty in low-income regions.

"Development," as I understand it, means the extension of human choice. Extension of human choice includes not just the alleviation of material poverty, but the pursuit of political and social choices which a free people, secure in liberty, might wish to make.

Material poverty, is being challenged in many parts of the world. But true development, in the sense of extending human choice, is a more problematic objective.

Food aid, like any sort of application of foreign aid, depends critically in its effect, on the intentions of governments. Foreign aid is conventionally, a form of transfer of resources from one government to another. Thus, it increases the options available to the recipient state. What the recipient state does with that aid depends very directly upon its intentions. If, as in Ethiopia, the intentions of that state are in some serious measure to promote political goals which are harmful to its people, such objectives will be abetted.

Not all situations are extreme as the current situation in Ethiopia, of course, but one cannot avoid the political reality that food aid, and any other form of foreign aid, will increase the ability of a government to prosecute its intentions, whatever those intentions may be.

The title "food aid," is something of a misnomer. What we are dealing with in these U.S. programs is, in essence, surplus commodity disposal.

We are transferring a number of surplus commodities to other countries, in ways we hope will have beneficial impacts. Unfortunately, surplus commodity disposal is in many ways an inferior form of foreign assistance. It gives the recipient government less leeway than it would have through direct cash transfers. It limits and distorts the priorities of recipient governments in many cases.

Without going into too much detail now—we can go into detail later on if you wish—it seems to me, that of the three titles under Public Law 480, title II, purely humanitarian relief, has the most directly beneficial effects upon recipient populations. But emergency in disaster allocations stipulated in the title II program have accounted in recent years for less than one-sixth of our food aid.

Even with title II, there have been some serious problems—witness only Ethiopia. Moreover, direct relief is in no meaningful sense "development." Direct relief prevents suffering populations from undergoing further injury, rather than promoting "self-sustaining development".

Title I and title III are soft loan programs. They thus distort priorities of local governments as all soft loan programs do. Their record for encouraging "policy reform" is highly questionable. Of

our surplus commodity disposal efforts in LDC's, the one which seem to have the best proven record of assisting local populations is title II, humanitarian relief. Those with more problems associated with them, in large part because of unavoidable political realities attendant to their structures, have been titles I and III. Thank you, sir.[1]

Senator BOSCHWITZ. Thank you, Mr. Eberstadt.

Dr. Ezekiel, please tell us just a little bit about the International Food Policy Research Institute, if you would, at the outset.

Dr. EZEKIEL. Thank you, Mr. Chairman.

The International Food Policy Research Institute, of which I am a research fellow, and in particular, coordinator for food aid research, is an international institution which devotes it efforts, as its title indicates, to the problems of food policy in developing countries. We are financed, internationally, by various countries, and by the Ford and Rockefeller Foundations.

It forms a part of what is called the CGIAR System, which is the consultative group on international agricultural research, including 13 or 14 other international institutes, mainly developed to agricultural research in the technological sense. The Wheat Research Institute in Mexico, the Rice Research Institute in the Philippines, are a part of this group.

The Food Policy Research Institute is not technological but socioeconomic and deals primarily with the economic issues that arise in connection with food. We are located in Washington and have about 25 to 30 research fellows, and associated staff.

Senator BOSCHWITZ. Thank you.

STATEMENT OF HANNAN EZEKIEL, COORDINATOR FOR FOOD AID RESEARCH, INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE

Dr. EZEKIEL. Mr. Chairman, I am very happy to have been invited here today.

I have submitted a statement of my testimony. I would like to apologize because I was not able to devote adequate attention, and time, to the preparation of a full statement, since the invitation reached me just as I was about to go abroad, and I have returned only on Monday, yesterday.

I will not read the whole statement but will make a few remarks.[2]

My testimony deals with three questions. The question of disincentives associated with food aid. The specific use of food aid to promote development, and, the question relating to India, which was specifically put to me, whether aid to India, food aid to India, should be continued.

The first two questions are interlinked but I have tried to separate them a bit, just now.

It seems to me that food aid can be used to fill the gap between demand and domestic production plus commercial imports.

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[1] See p. 177 for additional material furnished by Mr. Eberstadt.
[2] See p. 191 for the prepared statement of Mr. Ezekiel.

It can also meet the gap between need and demand, since population growth increases the numbers of those who cannot afford to buy food.

When the development process begins, demand rises rapidly, but death rates fall, and therefore population growth increases. Food production takes time to grow because it involves changes in the technology of food production, and a dislocation of an existing, very traditional system.

Now, so long as food aid is provided to fill these two gaps—and with respect to the second, that is the gap between need and demand—the need for food of those who do not have the money for it, provided that food aid is properly targeted to those who actually need it, it cannot have a disincentive effect on domestic production.

What is then required, however, is to insure that this food aid, particularly that part of it which is sold, is sold at prices that are reasonable, which when translated into producer prices, provide an adequate incentive to producers to produce more food.

So long as that price policy is properly maintained, and it can be maintained so long as the total quantities provided are not excessive, it cannot have a disincentive effect.

Now of course specific questions like the commodity composition of the food aid, timing of that food aid—it should not be sold, for example, in large quantities just after the harvest—and the geographical distribution within a country, particularly if that country is not an integrated single market, should be kept in mined.

But if those considerations are kept in mind, and these total quantities are not excessive, it in fact does not have a disincentive effect. There have been those who have argued that when large quantities are put on the market, it will have a disincentive effect, but they have failed to note that the total developmental program that the country has undertaken, including that which is financed from financial aid otherwise received, stimulates a growth in the demand for food, which this additional supply merely offsets.

It does not add to the supply that is independent of the addition to the demand that is taking place in the economy, and as a matter of fact, if that food aid were not available, inflationary conditions would develop which would in fact disrupt the process of economic development and slow it down.

In fact the first way in which one can look upon food aid as promoting development is that it prevents this kind of disruption that would take place because of inflationary pressures.

But two specific issues arise which I have addressed. What is the conflict, what is the dichotomy, if I may call it that, between humanitarian and developmental considerations?

As you are well aware, the public in general, the people of the United States, as of other developed countries, look upon the feeding of the starving as the objective. There are people who are starving and we have surpluses. If we can use the surpluses to feed the starving, that is something that is desirable in its own right. So this humanitarian consideration tends to dominate, very often, the uses of food aid in the programs that have been put forward.

Even if it is used directly for feeding programs, food aid has a developmental effect in the sense that it creates what may be called human development—sustains human beings who can then

become productive members of society, provided that society develops so as to use their productiveness.

Therefore, in the long run, food aid which is humanitarian in the short run, is developmental. But you can ensure that the hungry are fed by creating incomes in their hands, and then food aid is used to promote employment-oriented asset-creating activities.

This is humanitarian in the short run because it creates an income from which there can be a demand for food, and consumption levels rise, but it is also developmental because assets are created which contribute to production in the long run.

The critical thing is to recognize this aspect of what food aid can do, and to use it as a developmental resource which is not in contrast to humanitarian because it does create consumption increases immediately as well, but which creates assets which will increase incomes, employment and output, and therefore create in the long run a situation in which people no longer need to be fed. So, development, after all, is also humanitarian, because what development does is ultimately to remove the need for people to be fed since they are no longer poor.

More specifically, in recent times, the discussion has arisen about what is called the emergency and development interface.

As you aware, massive quantities of food aid have been provided whenever famines have occurred. I would like to emphasize that famines should be looked upon as repetitive disasters.

Senator BOSCHWITZ. As what?

Dr. EZEKIEL. As repetitive; those that are repeated; that occur frequently. One famine now is not what you are dealing with. You are sure that another famine will occur after a few years.

So that if the conditions that gave rise to this famine are not dealt with, the famine will be repeated in a few years. They are also preventable, in the sense that there are reasons why the famines occur, and if you can deal with those reasons, then you can in fact prevent the famine.

What I am arguing here, of course, is, that if you can prevent the famine, then you have in fact brought about development in a very specific direction, which is to deal with the famine that could occur in the future, prevent it from occurring. Now emergency relief has been provided in large quantities. I would like to very briefly state, that in my view this has been too little, too late, inefficient, high cost, ineffective in terms of its ultimate results, although it has been prevented a large number of deaths.

This is because in many cases, the food has been provided to refugees who have already left their homes and traveled hundreds of miles, after they have sold their assets, emaciated, in feeding camps, psychologically disrupted with the trauma of members of their families having died on the way.

Developmentally oriented aid will try to ensure that they do not leave their villages, but are fed in their villages, are in fact given productive employment in their villages.

Here, I would like to refer to three terms that arise in this condition. Famine relief with famine rehabilitation, perhaps, with relief, is one term. Relief and rehabilitation.

But a second term is famine preparedness, which would say we should prepare in advance for the famines that are coming, so that

the famine relief we provide is more efficient and effective, and we try, as far as possible, to prevent people from leaving their homes and traveling long distances, with all the trauma, and economic disruption that occurs as a result.

But there is a third term on famine prevention. I would like to suggest, that increasingly, our attention should turn to famine prevention as the most humanitarian thing that you could do. Because, to keep on feeding people every time there is a famine, and to assume that those famines must necessarily continue to occur, is, in my view, not an adequate picture of what is really needed.

So what you need to do is look specifically at the areas in which famines occur. Identify the factors that are responsible for those famines, such as shortages of water; investigate the resources of that region in terms, let us say, of water; carry out developmental projects that will make that water available, so that in times of drought, that water can be used to prevent the fall in production which is the source of the famine; and thus, in the future, prevent the famine from occurring.

In that process, the level of food output will rise, and the fluctuations in food output will diminish—and in employment and income as well—and the famine will therefore occur, perhaps, but in a smaller, more less intense form, and, ultimately, perhaps disappear. This is possible. And food aid can be used for the purpose.

Incidentally, food aid, even when provided as famine relief, can be used for the purpose, if it is used to pay people for work done which they can do when they are not already weak, and you can employ them in activity that would give rise to the assets that would in due course prevent famine. Food aid can be used for developmental purposes in this manner.

Senator BOSCHWITZ. Please tell us about India.

Dr. EZEKIEL. Yes. On India, as the question put to me itself, stated very clearly, we have the paradox of a country that is in apparent surplus, and in fact has started exporting food grains, and in which, at the same time, a substantial proportion of the people are so poor, that they do not have enough to eat.

Now two things must be kept in mind. In all developing countries, we have emphasized that our food aid should not lead to a situation in which the country does not pay adequate attention to its efforts to increase domestic production.

Food aid was provided to India in massive quantities in the early years of Public Law 480. India in fact brought about substantial increases in food production thereafter.

So we can say that India took the lesson that we had given to it, when we said that food aid should not cause a feeling that one does not have to bother about food problems and we can always get food aid.

It did not do that. It concentrated on agriculture and expanded its food production rapidly. However, the surplus that we have is only in relation to demand, not in relation to need. And this implies that growth in the rest of the economy has not been rapid enough.

There are therefore two failures here. One, the increase in food production was brought about by concentrationing on selected areas and bringing about more rapid increases in food production

so that the incomes that result from the production of food did not get widely spread amongst the population.

And second, that the industrial development that took place in India was such that the demand did not rise sufficiently. Incomes and employment in the industrial sector did not rise sufficiently.

This may well have been the result of a fear that these continued shortages from a large country like India—shortages that would create sudden, very large demands for food aid—would not be met sympathetically in the rest of the world. I am trying to defend, perhaps, what the policy of the Indian-Government could have been.

And that it was therefore essential for them to achieve self-sufficiency at least in relation to demand, because they would not always have the large quantities of food aid that might be required, if they concentrated on spreading the income and raising the demand for food.

This is an explanation, but it is important, because it means that the existing demand-supply imbalance with demand in excess—I am sorry—supply in excess of demand, may soon disappear, if the Indian Government adopts strategies of development, as it seems to be adopting now, which would push up the rate of growth of the economy as a whole. In this context, I would like to draw particular attention to the fact—a statement I have made in my testimony—that Indian food production tends to rise in spurts, and after it has risen to a new level it remains at that level, often, around that level, for a few years at a time, during which period of course the population grows, the income grows and the demand for food grows, and demand for food tends to start catching up with supply.

This is not the first time that India has had a surplus but it has never had such a large surplus. I would like to suggest that if, in the immediate future, India were to concentrate on raising the rate of growth of its income, and to distribute any increases in food production more widely in various parts of the country that still remain poor, the problem of Indian food surpluses is likely to disappear.

And in that context, what role does food aid play? Should it be continued? In my view it can be and should be continued because a country should not be penalized for having succeeded in increasing food production when the general criticism is that developing countries do not pay enough attention to increasing food production.

A country which does so should not be penalized because it has succeeded in increasing its food production, at least in relation to its demand, so as to create a surplus.

What it should be encouraged to do is to spread the income growth as widely as possible, so that the demand for food would rise and there would be fewer and fewer people who are starving.

How can that be done? Can you really provide wheat to a country that has a wheat surplus? And the answer of course is no. But, a fuller understanding of the Indian surplus situation shows that India is extremely short of oil seeds, vegetable oils, whatever you might like to call them.

India is not surplus in rice. It has a shortage of rice and a surplus in wheat at the present time. It is therefore possible to provide food aid with a commodity composition that would be acceptable to India, but aimed directly at feeding, or developmental-oriented

projects that would raise incomes amongst the poor, and does deal with the dilemma that we face, that India has a surplus of food grains, but relative to demand, not relative to need.

Senator BOSCHWITZ. I do have statements from Senators Dixon and Zorinsky here which I want to place in the record.[1]

Thank you very much, Mr. Ezekiel.

I would like to turn back to Mr. Deressa, and, recently, a Wall Street Journal article indicated that some of the grain that was donated by the program that we had here entitled "Live Aid," was misapplied, really, by the Ethiopian Army, and it was traded off for some Soviet arms.

Is there any accuracy to this report, and is this a widespread practice?

Mr. DERESSA. Well, sir, they have used the foods not only in this way but in several other ways. They have used the foods—at one point they turned an entire shipload and sold it to the Soviet Union, which was reported very largely in the American press, and the European press as well.

But more than that, the food aid is also used to entice peasant farmers, most particularly, in Tigre, in Wello, to come to get this food. The food is put in garrison towns and it is announced that the Red Cross is about to distribute food. And sometimes, mothers leave their children at home, thinking that they will work a day, perhaps half a day, come back with the food on their backs.

Immediately, they are captured—and I use the word advisedly—they are captured and put on trucks or in holding centers in order to be sent for resettlement into south Ethiopia and southwest Ethiopia.

Another way they use the food is those who do not participate in the Government's collectivization, or, those who do not, quote, unquote, "volunteer people for settlement," are not given this food.

So the food aid that has gone from the United States and Western Europe has really been used in the most diabolical way. This is a matter of record.

Senator BOSCHWITZ. We have heard some testimony, recently—not in this committee but in another committee—that the resettlement program has been, not terminated, but at least not continued at the present time.

Do you have evidence that the resettlement program is being continued?

Mr. DERESSA. First of all, Senator, when they say they have halted the resettlement program, it is really making a virtue out of necessity. The rainy season had begun in Ethiopia when the government announced a moratorium.

But shortly after that, the dictator himself, Mengistu Haile Mariam, gave a 3-hour speech in which he said resettlement and villagization are the two pillars of the revolution and they will continue.

When Time magazine, about a couple of months ago, interviewed the dictator, Mengistu Haile Mariam himself, he indicated as much. As a matter of fact, in that interview, they admitted for the

[1] See p. 174 for the prepared statement of Senator Dixon and p. 175 for the prepared statement of Senator Zorinsky.

first time that yeah, if these people are stupid enough not to move, we're going to move them by force, and we have done it. This is straight from the Communist government officials. So they do not make "any bones about it." It is the apologists in Western Europe, and in this country, who try to give them a human face by supplying all sorts of rationalizations. They do not make any bones about their policy.

Senator BOSCHWITZ. Are either of the other two witnesses familiar with the Ethiopian situation? I see you shaking your head, Mr. Eberstadt?

Mr. EBERSTADT. I have followed it to some extent, Senator. Yes, sir.

Senator BOSCHWITZ. Do you have anything to add?

Mr. EBERSTADT. I think that what Mr. Deressa has said is absolutely accurate, and I would concur with his statements.

Senator BOSCHWITZ. You say, Mr. Deressa, that a Western cutoff of aid would mean the prompt collapse of a Communist regime. It would mean starvation and death for millions of Ethiopians unless food supplies were channeled through those Ethiopians who are most interested in seeing it reach the regime's starving victims.

You say that these people are in 10 of the 14 Provinces, and what kind of facilities do they have, or what kind of infrastructure do they have to properly distribute the food, and what assurance would we have that now, a new political group would not use it perhaps, with the same force, the same intentions as their opponents?

Mr. DERESSA. Well, first of all, food can be moved the way that it has always been traditionally moved in Ethiopia, that is, by donkeys, mules, and horses. As to whether or not the other group also might use food as an instument of—weapon—as a weapon against the population, there is always of course that danger, but since people—for example, the Oromos in the south, in the east, the Tigre's and the Eritreans in the north—since they do not really have the kind of coercive infrastructive, were they to initiate this policy, they will find that they are not really able to do it, because most of the population, they are able to operate there because of the population going along with them.

If they were to turn against the population, as one of the resistance movements has found out to its own tragedy, they will be very soon rejected by the population.

Those refugees, for example, that are in Somalia, about 1 million Oromos who have fled from east Ethiopia in the Harah Province, and part of Shar—these people are, first of all, young and sturdy, middle-aged people, who, given the opportunity, would be very happy to take this food in to the families that they have left behind, because families have not left. So it is to the interest of those people who have refused to accept the Communist regime, or its villagization program, to ensure that the food gets to their brethren inside Ethiopia.

Senator BOSCHWITZ. What have the people from AID said to you about this. I am sure that you have talked to them as well.

Mr. DERESSA. I have attempted to meet with them. I have not really discussed, in some detail, this issue with them. But as I understand it, their policy is to continue to provide food assistance

through voluntary agencies, although the voluntary agencies themselves are controlled by the Communist regime because they are under the threat of expulsion, like happened to Medecins Sans Frontieres, for example.

Senator BOSCHWITZ. Like who?

Mr. DERESSA. Medecins Sans Frontieres. Doctors Without Borders, the one group that dared to speak out, and they were kicked out of Ethiopia.

So this is the rationale they gave. What can you do? It is like Mengistu Haile Mariam is holding his own people hostage.

If we refused to play according to the rules of the game that he has set, he will not allow us to feed so many millions of Ethiopians that desperately need the food. So they feel that they are caught in a dilemma, more or less because they are thinking in a one-dimensional way.

They are not thinking of alternative ways in which this same food can be provided to the population.

Senator BOSCHWITZ. Well, I will, as I indicated to you, I will pursue that, and would you be kind enough to put your address, and your phone number, everything on there.

Mr. DERESSA. Thank you very much, Mr. Chairman.

Senator BOSCHWITZ. We will now turn to the second panel. Mr. Ioanes, a former director of the FAS. Mr. Steinberg from Montana, and Mr. Wilson from U.S. Wheat, and Dick Smith, who is also formerly the director of FAS.

I confess to you, gentlemen, that when this hearing was called, I did not know that we would have some foreign visitors coming to town, and one of them is going to have a meeting at 11 with the Foreign Relations Committee on which I also serve.

I do not want to rush you, but if you could be as pointed as you could be in your testimony it would be very helpful. Thank you.

Mr. Ioanes, would you like me to start, sir?

Are you Mr. Ioanes?

Mr. IOANES. I am Mr. Ioanes.

Senator BOSCHWITZ. Hit it, as they say.

STATEMENT OF RAYMOND IOANES, FORMER ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. IOANES. Mr. Chairman, thank you for having us here today.[1] Dick and I, even though we are years apart, came from the same place.

I found Dr. Ezekiel's comments right on target. My experience with India was, I think unique, in the sense that we came to a country which had a low-food price policy, and the reason why their production did not expand was because they did not have an incentive price.

And so, at the time, when that large 3-year agreement was negotiated, the U.S. wheat that went into the country had to be subsidized down to the local price level.

One of the other interesting factors which——

[1] See p. 195 for the prepared statement of Mr. Ioanes.

Senator BOSCHWITZ. Subsidized down by whom? By us?

Mr. IOANES. By the Indian Government. By the Indian Government.

Senator BOSCHWITZ. They got it on a grant, or did they get it on——

Mr. IOANES. They did it out of their own resources.

Senator BOSCHWITZ. But the wheat came to them in the form of a grant under——

Mr. IOANES. No, sir. Foreign currency sales.

Senator BOSCHWITZ. I see.

Mr. IOANES. The entire program with India, that I will speak about——

Senator BOSCHWITZ. Was title I?

Mr. IOANES. Was title I, foreign currency sales.

The other interesting point about it was, subsequently, and with the support of the U.S. Government, including Secretary Freeman, the Indians raised their support level, and it was after that time that they got the largest increases in production.

Another interesting point about how countries regard their own situation: that large agreement, that 3-year agreement was one that the Indians insisted on. They insisted that they needed a 3-year agreement to embrace a food policy of plentiful food for their people, because in the past they have had famines, and they had incurred suffering because of their policy which said "low prices to the farmer."

Once having decided to embrace this much more plentiful program, they told us they could never return to a time of famine and food shortages. That is how the 3-year agreement came about. And a further comment about India because it seems to fit a lot of the questions you have raised today.

They are exporting grain today but we must remember that agriculture is cyclical. We have good times and we have bad times. India is on the crest of a plateau of sustained large grain production at the present time.

The monsoons will fail, they always do, in time, and India will again become temporarily, a very large importer of grain.

Senator BOSCHWITZ. Mr. Ezekiel also said that their exporting is a reflection of their low growth. The national per capita income I think is $260 a year, and it is a reflection of that.

Is it also a reflection of their inability to transport those goods to the areas of India where it is needed?

Mr. IOANES. I am not sure of that. I think there is a sense of local pride.

Senator BOSCHWITZ. Mr. Ezekiel shakes his head.

Mr. IOANES. I think there is a sense of local pride involved in countries which have had large import requirements, becoming exporters, even of a modest amount, and there is another point we must remember. That taking a country like Brazil—we all remember the famine in northeast Brazil, the so-called famine area of that country. When we approached the Brazilian Government about relief—I mean grant food relief for that part of the country, they simply said they were not rich enough to afford the management to take care of a relief program in that area.

If the United States was prepared to pay that price, fine, but they could not afford to do it. In subsequent years, that came about.

And on the point about damage to local agriculture, Brazil is a case on the other side of the coin. Brazil, at the time we negotiated the first agreement with that country, had high prices, had high prices for wheat which they sustained all during that period.

And today, the imports of wheat into Brazil are much higher than they were during the early years of 480. She had a high-price policy for wheat. She still has a high-price policy for wheat.

But the major problem that we saw was the climatic condition and a very serious rust problem that she had, which could not be corrected through high prices.

So, in answer to the question about damage to local agriculture, I think those are the two classic cases I can think of, that give the lie to the point that an attempt to use food aid, obviously, causes problems at times, but in the larger sense, to get the program underway and started, as Dr. Ezekiel said, is really the right thing to do.

Let me make one more point. You have my testimony. You know, there was a note in your questions about, you know, does food aid promote growth. It does, in many ways, because it contributes to the work force. It contributes to the processing industry when you take feed grains and convert those into mixed feeds, and distribute those to farmers, who produce pork or beef, or poultry, or eggs.

So you get a multiplier effect in both income, and you get a multiplier effect in terms of the goods available for distribution. So you provide for business expansion.

And in connection with the point about why do we talk about Korea and Taiwan so much—well, there are some unique things about those countries.

You have got to remember that both of those countries have very strong governments. You do not get administrations changing from day to day and week to week. So when the government laid down a policy in those countries, that policy went all the way from top to bottom.

They were interested in large food aid programs. They already had a large U.S. military presence. Food leaks out of commissaries. That helps build markets. They were interested in Western diets. That meant they were happy to work with Mr. Wilson, and his predecessors, and with us, on moving in that direction.

And last, they sought eagerly, selective U.S. investment, especially in industry, and American investment was attracted to that area because of their cheap labor. And so they had the natural ingredients for growth that helps build trade.

I will stop there.

Senator BOSCHWITZ. Well, that is very interesting testimony. I will read your testimony in its entirety.

What do you do now, Mr. Ioanes?

Mr. IOANES. Well, I only have one active assignment. I help Carol Brookins——

Senator BOSCHWITZ. Oh, do you?

Mr. IOANES [continuing]. With her world perspectives. But since 1982 I have goofed off.

Senator BOSCHWITZ. Is that right? Just put your name and address, and everything.

Mr. IOANES. Yes.

Senator BOSCHWITZ. I am just going to take a very, very short intermission.

[Brief recess.]

Senator BOSCHWITZ. As I recall from what I read, you were with the FAS for quite an extensive period of time, Mr. Ioanes?

Mr. IOANES. Yes. I was, sir. Yes, sir.

Senator BOSCHWITZ. Between you and Mr. Smith, both of you were there for most of the period of its development. You were with the Democrats, I suppose.

Mr. IOANES. I was also there with the Republicans, Senator.

Senator BOSCHWITZ. That is good.

Mr. IOANES. I was there for 12 years.

Senator BOSCHWITZ. I see.

Mr. IOANES. I enjoyed both adminstrations.

Senator BOSCHWITZ. We will not ask you to make any comparisons. I do not know who would come out on top. [Laughter.]

Senator BOSCHWITZ. I have Mr. Steinberg, and then Mr. Wilson, and then Mr. Smith. Is that a logical progression of events? Then we will turn to Mr. Steinberg from the Mansfield Center.

STATEMENT OF DAVID I. STEINBERG, PRESIDENT, MANSFIELD CENTER FOR PACIFIC AFFAIRS, HELENA, MT

Mr. STEINBERG. Thank you very much, Senator.

I have submitted a statement which I will not read in the interest of time, but I will summarize.[1] Your letter to me arrived after I had submitted this, so that I will add a few comments which are not in the testimony.

I think that the title I food aid program is a critical component of the U.S. foreign assistance effort, but its four stated objectives of eliminating surpluses, creating markets, pursuing foreign policy goals, and the humanitarian developmental considerations, while worthy, are sometimes in conflict with each other in various countries.

The internal sales of these commodities has been terribly important in a variety of local countries. Basically, it is a relatively flexible, quick dispersing and expandable means of U.S. assistance, to program up to a predetermined political level. AID in the past has carried out a series of evaluations of title I. I have those here, some of them here, in the summary which I will give you.

Senator BOSCHWITZ. Oh, fine. They are not attached to what I have?

Mr. STEINBERG. They were submitted. I have the full text but also the xeroxed parts of it.

Senator BOSCHWITZ. OK. Go on.

Mr. STEINBERG. The AID studies indicate that of the countries explored, the program was overly more successful in Sri Lanka, Ban-

[1] See p. 197 for the prepared statement of Mr. Steinberg.

gladesh, and Peru, and had mixed results in Jamaica, Egypt, and Korea.

It may have furthered the stated objective of the act but interfered with others. For example, in Egypt, where it was the largest component of our program, it allowed the United States to dispose of surpluses, supported foreign policy objectives, enabled the United States to fulfill its aid levels, but did not result in leverage for policy reforms in the agricultural sector.

In Bangladesh, however, it did work. In Sri Lanka——

Senator BOSCHWITZ. I see a figure of $42.3 billion. That is all aid?

Mr. STEINBERG. I guess that is the figure that is quoted in the summary volume on the Public Law 480 that AID has published.

Senator BOSCHWITZ. Yes. It is certainly not just Public Law 480 or food aid.

Mr. STEINBERG. No. It goes back to 1960, and then the program was stopped, of course, in the Arab-Israeli war, and then it was reinstituted in the 1970's. I know it is an amazing figure.

In Sri Lanka, the program was successful for basically two reasons. It did not interfere with the production of rice because, basically, the imports were weak, and the agricultural policies of the Sri Lankan Government were essentially sound, although the consumption policies I think were probably unsound. But production, our policies were quite good.

Korea is a very interesting case. The Public Law 480 program, in my view, allowed Syngman Rhee and Park Chung Hee to virtually ignore, except, peripherially, the rural sectors, for a period.

Because of internal political considerations, Park Chung Hee created a massive rural development program including increased rice and barley prices, that transformed the Korean rural sector.

This was a result of the elections of 1971 that he almost lost to Kim Dae Chung, and in which his rural support significantly eroded, as well as a result of a shift from Public Law 480 from grant to loan in 1968.

Thus Public Law 480 allowed successive Korean Governments to avoid rural policy reforms until they felt it was in their internal political interest to implement them, and then they did.

Local currency generation in Korea was absolutely critical to the survival of that government in the early period, and Public Law 480 was largely responsible for that, and certainly, that was a terribly important effort.

As urbanization and population increased, Korean wheat consumption rose, and self-sufficiency went down. Korea used to be 36 percent self-sufficient in wheat. It is now 2 percent, and most of that wheat comes from the United States as commercial sales.

In a sense, then, Public Law 480 was the precursor to United States market penetration, but that might have occurred in any case because of the United States-Korea political and military commitments.

It would be inaccurate to maintain that Korean growth occurred only after foreign assistance stopped, or that the Public Law 480 program was not essential to the nation in its earlier period.

The lesson from the Korean and Egyptian experience is that the program as an instrument of agricultural reform will be most difficult if security of political conditions are paramount.

The Philippines. There was talk about the reintroduction of a Public Law 480 program which has since occurred, during the peso shortfall period of 1978, and that was supposed to be done for political consideration. It was not done at that particular time.

As far as the Gilman-Solarz amendment of 1981 goes, mandating self-help measures, the record is mixed. It seemed to have worked in Peru. In Bangladesh it was spotty, in Jamaica poor, and in Sri Lanka, where additional self-help measures were not needed, the programs got lost in Sri Lankan Government budgets.

AID does not have the staff to monitor those types of programs, and the countries capable of handling the extensive paperwork probably need such additionality least.

And it is unclear from the evidence, from these evaluations, the effect of the Bellmon determination of 1977, that Public Law 480 not be a disincentive to agriculture.

In the case of Egypt, however, it is very clear that it has been, I think, a disincentive to increased wheat production. In Korea, that predated the Bellmon determination.

The recommendations coming from this experience are the need for advanced warning on the types of commodities to be included in surplus. Otherwise, distribution of such commodities will undercut local agricultural self-help measures.

Local governments need to be more deeply involved in the selection of those commodities. Multiyear commitments are needed. Programming of food should be determined by volume, not dollar amount, because the latter is too mercurial.

Although disincentives to local agricultural production may be charged to the deficiencies of local policies, Public Law 480 can perpetuate those policies. Planning and administration of Public Law 480 split among U.S. Government agencies results in inefficiencies and reflects the polarity of trying to satisfy international affairs and domestic constituencies.

Public Law 480 is useful, politically, in programming up to a politically predetermined fiscal level of support, but there are inherent dangers in that.

I would add to that, that Public Law 480 can promote economic development if it is better integrated into the development needs of the society, and that the commodities provided are consistent with those societies' requirements, and supplied over a longer period of time.

Food aid is not the answer to economic development. It is often a useful means to assist reaching that end. It must be coupled with sound programs. The danger is that we seek universal development policies that we push on nations at disparate levels of development, and social and economic conditions. This is a major error, I would argue.

Food aid can deter a country's interest in rural reformation and development as in Korea. This is not universal and not necessary, however.

Food aid could move toward economic development if it were tied more to a general structural adjustment and policy reform. Basically, privatization, which would involve less paperwork than title III, for example.

And guaranteed over longer periods of time. This could also assist in making available private credit. Care must be taken, however to avoid privatization efforts that would exacerbate tensions between social and ethnic groups, and thus lead to increased political instability.

Many societies, even our own, have hungry people and food surpluses. Food aid is not a substitute for sound agricultural policies.

Thank you, Senator.

Senator BOSCHWITZ. That is very interesting. Is the Mansfield Center at Helena? Or are you associated with the University of Montana?

Mr. STEINBERG. We are associated with it. There are two programs: one is a university program and one is a conference, seminar, basically educational outreach program, which is the program I run.

Senator BOSCHWITZ. Fine. I appreciate your testimony. It was very direct, and very pointed, and it does leave some questions with respect to the specific countries, and I apologize, I may ask them at another time, or just by phone, but my own time constraints are embarrassing this morning, I am afraid.

Can we turn to, now, Mr. Wilson?

Mr. WILSON. You have a copy of my statement, so I will be very brief and summarize.[1]

I am a little sorry that Mr. Steinberg no longer works in AID. I like his attitude. I am not sure it is always present, currently, and——

Senator BOSCHWITZ. Well, one of the more direct witnesses, which, very frankly, I like the directness.

STATEMENT OF WINSTON WILSON, PRESIDENT, U.S. WHEAT ASSOCIATES, INC.

Mr. WILSON. I would confine my remarks just to the market development area because I think the other areas have been touched on, or discussed quite well today. But I would point out, that the original language of Public Law 480, the Public Law 480 bill, market development was a paramount concern, and I think in the last few years that has become, maybe at the bottom of the list and even in the invitation to this hearing, it was number eight of eight points that were to be discussed.

And we, obviously, being in that business, think a little more priority ought to be given to market development.

Senator BOSCHWITZ. Well, we would say to you, Mr. Wilson, that if you want to judge the prioritization by the numbers of the question, we would be happy to put them up at the front, but we would suggest to you that that is not a particularly thoughtful way of making an evaluation.

Mr. WILSON. One of the problems that we have—and I will not belabor this one, either—with Public Law 480 in many cases—and of course I am talking about titles I and III, as we sometimes provide disincentives to people to take our commodities because of all the problems that arise from things like cargo preference require-

[1] See p. 199 for the prepared statement of Mr. Wilson.

ments, and certainly, that has been discussed up and down and around.

But one thing we would like to see is a little more attention paid to the logistics of the program so that it is not—you do not create an attitude that buying agricultural commodities of the United States is an ordeal which should be avoided at all cost. And I think, sometimes, that is the end result of some of the things that happen. Another area——

Senator BOSCHWITZ. I do not agree with that at all. I do not understand what you just said. Why is it a logistical problem? Why is buying from the United States so difficult? I would think that the reverse would be true.

Mr. WILSON. Pardon?

Senator BOSCHWITZ. I would think that the reverse would be true.

Mr. WILSON. Well, I agree, I—what I am saying, though, in the case of, when the delivery is made in a vessel that sinks in the harbor, that does not create a very good attitude about our products, is my point. Yes, in general, we are the most——

Senator BOSCHWITZ. I do not think that is a recent type of occurrence.

Mr. WILSON. It has been fairly frequent, though, that we have had some problems in that regard.

Senator BOSCHWITZ. Sinking in the harbor?

Mr. WILSON. Well, virtually. We had one sinking recently and some near misses over the past few years. But another problem which we think can be dealt with—and this was mentioned by Mr. Steinberg——

Senator BOSCHWITZ. Drop me a line about the sinking in the harbor and the near misses. I am not familiar with that.

Mr. WILSON. Well, there was a recent episode in Sri Lanka that was pretty nasty.

Senator BOSCHWITZ. Well, let me know about it.

[The following information was subsequently received by the subcommittee:]

US WHEAT ASSOCIATES,
Washington, DC, September 30, 1986.

Hon. RUDY BOSCHWITZ,
U.S. Senator,
Washington, DC.

DEAR SENATOR BOSCHWITZ: Attached is a telex from the U.S. Wheat/Singapore Office which details the U.S. flagship "Pennsylvania" episode that I mentioned in my testimony regarding PL 480 shipments.

I believe that the text of the message is self-explanatory, and I would be happy to answer addtional questions you might have.

Sincerely,

WINSTON WILSON,
President.

Attachment.

UNITED STATES CARGO PREFERENCE SERIOUSLY DISRUPTS SRI LANKAN MARKET; GAINS PRESIDENT'S ATTENTION

The application of cargo preference to Sri Lanka with the U.S. flag Pennsylvania caused many disruptions, delays and financial losses among a broad range of market and political dislocations during the January-March 1986 period. Cargo preference, which is often the source of major complaints by importers, was previ-

ously a 50% requirement on all P.L. 480 allocations, with the U.S. government/taxpayer paying the 75% to 200% freight rate differential over foreign flag carriers' quoted fixtures for the same route. This requirement was recently legislated to increase to 75% of all P.L. 480 allocations over the next few years. The primary problem is that the U.S. maritime industry has only about a half dozen suitable bulk carriers, thus cargo preference requires many countries to use U.S. flag tankers, twin deckers or other cargo vessels *specifically designed to efficiently load, haul and off-load cargoes other than bulk grain*, such as liquid or container cargoes. The U.S. flag tanker Pennsylvania, loaded with Hard Red Winter wheat, left its Gulf port on December 4, 1985 with an ETA of January 16, 1986 at Trincomalee, Sri Lanka, the site of the country's only flour mill which is one of the world's largest and most modern. By March 27th, this 55,000 MT, structurally unsound vessel, holding 45,000 MT of wheat was listing in Trincomalee's port, was partially off-loaded, had been sold for scrap in Taiwan and cost a cargo preference subsidy of over $40/MT. The vessel had earlier experienced mechanical problems, thus repairs delayed its arrival to Trincomalee by over 5 weeks to February 24, 1986. The delays necessitated an emergency commercial tender for prompt shipment of Australian wheat to fill this P.L. 480/cargo preference created gap. Sri Lanka had to pay $10/MT more for this Australian wheat than it did a month earlier, a fact which the Sri Lankan government feels resulted from Australia taking advantage of its pending tight supply situation resulting from the Pennsylvania. World wheat prices did not increase from December to January by $10 a ton. Despite this 20,000 MT emergency cargo and a 10,000 MT emergency shipment of flour from Singapore, Sir Lanka's sole flour mill ran out of wheat and was forced to close for one month, at a cost of $65,000 per day resulting in the flour distribution pipeline becoming seriously thin. Sri Lankan President Jayawardene wrote a strong letter to the Minister of Food expressing his concern over the situation, and seeking assurances that such a matter won't reoccur. By presidential directive resulting from the Pennsylania, tanker vessels are specifically not allowed to ship wheat to Sri Lanka in the future. The U.S vessel's owners did not, as had been agreed to, arrange for portable vacuvators needed to off-load the vessel at sea into another vessel (foreign flag) to bring alongside Prima Ceylon's modern jetty. This rather unbelievable discharge arrangement was endorsed by USDA and was to be for the expense of the shipowner. To remove the grain from the vessel's holds, 21 six-foot diameter holes were cut in the ship's 1-inch-thick steel for the pneumatic pipes to fit (not necessarily efficiently) into the holds and remove the grain. (Access to the holds is the major structural difference between bulk carriers and other vessels). Needless to say, the fire/explosion concern over using cutting torches to get into a hold of grain was substantial. Once this vessel become "fit" for off-loading, it seriously disrupted the line-up of vessels already scheduled at Prima's jetty, as the vessel was listing and had to be turned at least four times during its off-loading, which in total lasted over ten days instead of the normal six days. The jetty's 500 MT/hour pneumatic off-loading rate was cut by over 70% due to the dislocated off-loading situation presented by this vessel. Prima Ceylon Limited's profit in it's milling arrangement with the government of Sri Lanka comes' totally from its re-export of pelletized bran. Of course, Prima had no bran to export for this period. The end result was that Sri Lanka received its bargain U.S. aid wheat, the U.S. shipowner, who incurred some additional stevedore and demurrage costs, got paid and since he has sold his ship for scrap, and will not have to endure the difficulties of cargo preference in Sri Lanka again or the expense of a back haul. Furthermore, the U.S. Government has advised Sri Lanka that its FY87 P.L. 480 wheat allocation will be reduced by 27% to $19 million from FY86's $26 million level.

Mr. WILSON. But a related problem is the variability of availability of Public Law 480 from one year to the next, and we think that multiyear programming would be an excellent means of dealing with this problem and allow better planning, both from the U.S. standpoint, but also from the recipient country. And we sometimes get the impression that the administrators of Public Law 480 do not really understand that people have to eat every day and not just sometimes during the fiscal year.

In many cases, we are well into the year before the programming is really made, and it does put the recipient country in some rather awkward situations.

I would also briefly mention self-help measures. Sometimes they are very constructive and very useful. Other times, one has to wonder if they are not something dreamed up by very junior people in the field and not terribly well thought out, and we would be very much in favor of some sort of systematic review of these measures by either an oversight group, by the Congress, or elsewhere within the Government.

Because we think, that in many cases, these do not make a lot of sense. I would agree with Mr. Steinberg's comment on the privatization initiatives. In many cases that is an excellent approach and it needs to happen. In other cases, it makes absolutely no sense, but I think that was discussed in some previous hearings of this committee.

Another area that we feel very strongly about is that we need to take a little more time and effort to convert some Public Law 480 to commercial business. We have not been terribly good at this over the years. There seems to be a reluctance within AID to have very much to do with commercial business.

The United States is the largest contributor of grain under the Food Aid Convention, 12 times more than Australia, 7 times more than Canada, and 2½ times more than the European Community.

But in more cases than not, we find that many of the recipients, who also make commercial purchases, will take their food aid from the United States and make their commercial purchases elsewhere. And we think that a little effort and time could be put into changing that situation. In final——

Senator BOSCHWITZ. I would agree that, from what I understand, that the AID sometimes does not have a very good feeling or understanding, or connection with the commercial trading in grain, with business in general.

Mr. WILSON. Sometimes it is our feeling that they go out of their way to avoid getting tied into those situations.

But in summary, we think that the program has certainly been a success in the last 30 years and has a lot of potential, but we would like to see some fine-tuning in some of the areas of one and three, particularly in the mechanics of the program.

Senator BOSCHWITZ. Mr. Smith, you at least I know well enough, I can even insult, so that I would like to ask you to be very pointed and as brief as possible, and then just give me a call, and anything that you have left out, that you think you want to include——

Mr. SMITH. No problem, Senator. Just quickly, I want to say that I worked my whole career in FAS, and I am pretty proud of the organization, and I have no doubt that it is as good an organization as it is because of Ray. He is the one that really got it started, and it is always a pleasure to see him.

Senator BOSCHWITZ. How long were you with FAS, Mr. Ioanes?

Mr. IOANES. Twenty years.

Senator BOSCHWITZ. And you were more than that, weren't you?

Mr. SMITH. Twenty-six. But I got my training under Ray. He was tough.

Senator BOSCHWITZ. And a lot of those years overlapped. When did you leave FAS?

Mr. IOANES. In 1973.

Senator BOSCHWITZ. And you left in 1985, so that is—1986? 1985?

Mr. SMITH. Yes.

Senator BOSCHWITZ. So that is 14 years you were together?

Mr. SMITH. That is right.

Senator BOSCHWITZ. During a period, I presume, when FAS was not quite as large.

STATEMENT OF RICHARD A. SMITH, GOVERNMENT RELATIONS ADVISER, HERON, BURCHETTE, RUCKERT & ROTHWELL, AND FORMER ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. SMITH. That is correct, and it was the formative years—when the organization was started.[1]

I would like to say, that I associate myself with what Mr. Ezekiel was saying about Public Law 480 AID, and I think that he answered the questions that were put to us very well. So I do not think we need to dwell on that.

The only point I would like to make, and it has been touched on very briefly, but I would like to emphasize, is that we tend to forget, that in addition to the actual commodities and the food that is donated, under title I, a large amount of resources are generated in the form of local currencies.

As a matter of fact, I think right now, local currencies make up most of the funding for the AID program overseas. These funds have become the main resource that we have to deal with in AID recipient countries. I believe that over the years, by the nature of the program—the fact that it is a government to government negotiation and government to government agreement, the tendency has been to have all of these funds channeled into government or quasi-government projects. My belief is if we are going to see our agricultural exports grow again, we are going to have to see economic development in the less-developed countries. That is where the demand is going to be. And I am convinced that until we see more efforts to get the private sector, and entrepreneurs involved in development in those countries, that we are not going to see that kind of growth.

This policy should also apply to all aid, but in the case of Public Law 480, it would be a good place to start. The United States should try to channel more of those funds into the private sector.

Our policy should be to encourage the development of private banks and financial institutions that currently exist. The local currencies generated by Public Law 480 should channeled through these organizations on a commercial basis. Let them decide who should get the loans rather than governments.

In countries where you do not have the necessary private infrastructure, a major effort should be made to create it.

My experience has been—and I think we are seeing a lot of other countries accepting this—that development through government-type banks and institutions just does not work.

Mexico is a good example, where I have had some experience. They are trying to sell off most of their government enterprises right now because they have been a miserable failure, and——

[1] See p. 202 for the prepared statement of Mr. Smith.

Senator BOSCHWITZ. Did you by chance see—there was somebody at the World Bank, I forget his name, an economist, who wrote some things about various countries, and he pointed out that where lending, or where the capital went to the private sector, rather than to the public sector, or where the public sector got its hands on what financing was available, that those economies did not develop at all.

Mr. SMITH. Yes. I do recall. Taiwan and Korea are also good examples.

Senator BOSCHWITZ. What is his name? Pardon me? Yes. Keith Moss.

He wrote some interesting things about how Asia flourished and Africa busted, although he pointed out that in the case of Africa, the Cameroons, and Malawi, until recently, in Kenya, and I think, the Ivory Coast, were exceptions, and that some of the Pacific Rim countries did much better.

Mr. SMITH. That is an area that has to be looked at, because right now I would guess that a very high percentage of local currencies are channeled into government institutions.

I will bet if you look at the record, these are the same institutions that funds have been channeled through for the last 25 years, and you will find little growth or new economic activity generated.

Senator BOSCHWITZ. And how would you channel them, Dick? You would——

Mr. SMITH. Well, I think it varies, but most of the countries where we have title I programs have good, private financial institutions.

You take Central America or the Dominican Republic, many of these countries—rather than having these counterpart funds become part of the Government's budget, and being allocated to Government projects, we should insist that those funds, or a major part of them, actually be put through private financial institutions, they have a lack of liquidity right now.

There is a tremendous lack of credit, and particularly longer term credit.

Senator BOSCHWITZ. What do we do? We just contribute to their net worth? How is that done?

Mr. SMITH. Well, I think basically, the concept that was included in the——

Senator BOSCHWITZ. Becomes a loan to the bank?

Mr. SMITH. Yes, as authorized in section 108 of Public Law 480. The U.S. Government would loan the local currencies to private institutions on commercial terms and they would have to pay them back.

This would provide the liquidity which they do not now have and will lead, I believe, to construction of facilities that will create jobs and economic activity. This concept can be tied very well to our market development program, where our cooperators can help in terms of getting some of these private organizations going.

This, in the end, is what is going to lead to development in the less developed countries. It is going to lead to higher per capita incomes, and when we get that, we will see the growth in agricultural exports again.

I think it is an area that needs to be looked at very, very carefully, not only for Public Law 480, but I think also our intermediate credit programs, and all of our assistance programs, to try to channel more of it in that direction.

Senator BOSCHWITZ. Thanks very much. We have done some of that here in the committee. I must say that the Senator from Montana, Senator Melcher, has been after us to do that, and I recently told him that I was coming more and more to his point of view.

I will talk with you, Dick. We will get together again for supper, and maybe bring along one or two other people, and talk about how that can be implemented, because, you know, the idea—there is no question in my mind, that until there is the economic ability to buy, that we are not going to sell them, and that, you know, many farmers, and other people in agriculture, get rather concerned that if you loan them money, and that they develop their agricultural base, that you are undoing a customer. But I agree, more and more, that we should try to leverage our foreign aid, or the assistance under the various loan and grant programs in the manner that you are speaking.

Mr. Ioanes, you wanted to make a closing statement, or a statement?

Mr. IOANES. A statement because I kind of felt I chopped away more than I should have.

Senator BOSCHWITZ. Go ahead.

Mr. IOANES. First of all, in reviewing my testimony, I did suggest that perhaps Mrs. Acquino could use a national school lunch program, and I think that fits the statements of some of my colleagues here, on the committee. I do support the idea of more multiyear agreements to bring stability to consumption, and to economic growth. I would urge that we look, again, at what bothers Winston Wilson, which is the decrease in the market development program.

I think the outstanding bonus we have had in that program over the years is to bring the American farmer from the farm gate to the foreign customer, and I think it is a shame, at these trying times, when we are trying to wean away farmers from some of the direct support costs, to some of the things that would give us longer term benefits, that we take that occasion to cut that program drastically.

Last, I would support something that Dick said, in an even broader sense. I think that we must pay attention, much more than we have, to bringing agriculture into those negotiations with the Brazils and the Mexicos, where we are restructuring their foreign debt.

I know that if we were there today, we would be insisting that we have a hand in those discussions where our Government sits down with those governments and decide on debt extension and interest reductions.

I would want to make sure that I would have a hand in that to make sure that my area is not a loser in the process. By that I mean the sales of corn, the sales of soybeans, the sales of wheat that we have had in the past. In that process, I would think that we would learn, that one of the things we have got to do today is to protect what we already have, as compared to a further extension of gain. I would like to see us invent a new credit facility that

would be of longer term than CCC credit, but a shorter term than the 30-year period of 480.

Something, maybe, of a 10-year period to fit into the debt restructuring programs that we have going with those countries. Thank you very much.

Senator BOSCHWITZ. We will talk about that as well, and I do not mean to abbreviate this hearing, but it was very good that you have come, and we will talk some more. I think I am in agreement with your point of view, and I thank you very much for coming.

The hearing is adjourned.

[Whereupon, at 11:14 a.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

JULY 15, 1986 HEARING

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

Mr. Chairman, I would like to commend you for holding today's hearing; the first of three scheduled on food aid and world hunger. For this morning, I see we have a most impressive list of witnesses.

Since the 30th anniversary of the Food for Peace Program 2 years ago, our food aid programs have received a great deal of attention. During these past couple of years, Americans became aware of the dimensions of famine affecting much of Africa, and responded in a most generous fashion. Over the same period, our farmers produced record crops, leaving our Government warehouses bursting with all kinds of food for which there is no market.

In Congress, the process of reauthorizing our food aid programs produced a number of new and innovative proposals utilizing these surpluses:

The Section 108 Program, which Senator Boschwitz, Senator Melcher, and myself literally created around this table during mark-up;

The Food for Progress Program, developed by Ambassador Robert Keating; and

Increased Monetization of Surplus Commodities, for which Senator Melcher was largely responsible.

These proposals recognize that the engine of development and economic growth is not central government planning, but rather the free enterprise system,, with its principles of competition, productive efficiencies, and personal reward--and responsibility.

By recognizing this basic fact, these proposals will improve the ability of our food aid programs to encourage real development, and thus prevent famine in the future. But the ability of these new programs to achieve the goals for which they are designed is very much dependent on the manner in which they are administered.

This hearing provides us with a timely opportunity to take a look at how these new programs are being administered, and to also consider some ideas aimed at further improving our aid programs. I look forward to hearing this morning's testimony.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Good Morning. I would like to welcome everyone to this hearing of the Foreign Agricultural Policy Subcommittee. It is the first in a series of hearings we will be holding on the issues of world hunger and food aid.

Our food assistance programs are a key element in our agricultural and foreign policies. These programs aim to provide humanitarian relief to the hungry overseas, and promote economic development. To the extent such programs are successful in spurring economic growth overseas, they help create new markets for our own farmers.

This morning's hearing aims to provide the subcommittee with an overview of world hunger and food aid. The second hearing will look at humanitarian relief in problem areas, and the final hearing's focus is economic growth and market development in the third world.

I have had three interests that are interrelated in the issue of world hunger. First, agriculture and its role in short-term solutions and long-term prevention. Second, preventing hunger both domestically and worldwide. Third, foreign policy and the United States' role in assisting other countries and developing markets.

I would like this hearing and the series of hearings to be forward looking and focus on prevention. How do we move from putting out the fires to teaching fire prevention? We need to identify the potential problem areas, how we can provide relief on a timely basis, and--most importantly--how we can prevent famine and widespread hunger from erupting in the future.

Food aid can work and that was demonstrated earlier this year through a Minnesota program that fed thousands of refugees in drought-stricken Africa.

Minnesota's donations of 2,200 tons of grain and 19,000 pounds of nonfat milk were coordinated by the Minnesota Coalition for African Famine Relief. The shipment, which left Minnesota's Port of Duluth aboard the freighter S.S. Alkyonia December 11, 1985, was financed through donations from farmers, unions, school children and other concerned citizens from the State.

The shipment reached the Port of Sudan in Mid-January and was distributed by CARE, the International Relief and Development Agencies. In April, staff members from the office of Senator Edward (Ted) Kennedy noticed the bright lettering on the bags of wheat from Minnesota when they toured the refugee camp at Wad Sherifie deep in the interior of the Sudan. Each of the white bags filled with wheat was labeled in blue letters "From the People of Minnesota, Port Sudan, WHEAT CARE."

The food relief effort began in December of 1984 when representatives from the Seaway Authority at the Port of Duluth and the Minnesota Agriculture Department met with a retired farmer from southeastern Minnesota, Robert Binger. The group decided it wanted to do something to help relieve famine in Africa.

The statewide effort raised $350,000. Of that, $45,000 came from Minnesota school children and the State of Minnesota contributed $125,000. The wheat shipped overseas was bagged by

General Mills, Inc., at the bagging facility at the Port of Duluth.

About 110,000 refguees are estimated to live at the camp. The Minnesota shipment contained enough wheat and nonfat dry milk to feed 20,000 people for 6 months.

So often serious world problems seem far-removed and impossible to solve. The Minnesota wheat donation provides that individual citizens can make a difference in even the most difficult problems.

I am very pleased that this Minnesota project recently was nominated for a 1986 Presidential End Hunger Award.

We have a full agenda this morning. We will examine the past performance of food aid programs; with an eye towards identifying their successes and disappointments. We will take a look at how the new authorities provided for in the 1985 Food Security Act are being implemented; and we will consider future directions for food aid, including proposals for improving aid programs, and predictions as to where we can expect famine in the future.

It is my hope that these hearings on food aid will help to ensure that the programs will operate effectively and to the benefit of all.

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Mr. Chairman, during the past few weeks I have heard from Nebraska farmers concerning the imperative need to boost export sales of farm products. Agricultural export sales from the United States during this fiscal year are now forecast to be less than $28 billion--more than 10 percent below last year. The agricultural trade balance this year will be less than $8 billion--the smallest trade balance since 1973. In May, for the first time in years, the United States imported more agricultural products than were exported.

This Nation must confront a basic policy choice: Will the United States continue to be a nation that exports agricultural products? If we intend to stay in the world markets, we must become an aggressive seller. The United States must be able to offer agricultural aid, concessional sales, and commercial sales. Our customers must find that they can receive terms from the United States that are equal to any in the world.

If the Administration is not willing to make a serious effort to make the United States a competitive seller, then farm policy should be divorced from trade policy. Nebraska farmers cannot continue to be caught in a tightening vise of less price support in domestic programs and less export sales.

Some of my colleagues have joined me in the past to strengthen agricultural export sales programs, such as the Blended Credit Program and the Export Enhancement Program. We were assured by the Administration representatives on numerous occasions that, with full use of these programs, farmers would not need to rely on domestic price and income support programs. As it turns out, the Administration has failed to fully use its existing authorities to expand export markets, but fully used every means possible to cut back on the domestic programs. Perhaps Congress has made some bad

deals with the Administration, and negotiations should be reopened.

Mr. Chairman, today's testimony should provide the Committee with sound evidence concerning any possible legislative actions that might be necessary to move more farm products into overseas use.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Mr. Chairman, I want to commend you for holding these hearings on U.S. Food Aid Programs and World Hunger. This is certainly an issue that is of concern to most Americans.

I will be very brief and just say, that I feel many of our food aid programs have been successful in the past. Successful in the sense, that thousands of hungry people around the world have been fed with the bounty of the American farmer. In some cases, these programs have not only met the immediate need of preventing people from starving, but have also resulted in the development of markets for U.S. agricultural products.

However, Mr. Chairman, I am not suggesting that we stop and pat ourselves on the back. There is something inherently wrong when there are millions of starving people in some countries and tons of surplus food and agricultural products in other countries. We should not lose sight of this fact, in consideration of our over all agriculture policy.

I look forward to hearing and reviewing the testimony and recommendations of the witnesses.

Thank you, Mr. Chairman.

STATEMENT OF HON. MITCH McCONNELL, A U.S. SENATOR FROM KENTUCKY

Mr. Chairman: The subject chosen for today's hearing is of vital importance. Our efforts to alleviate world hunger through food aid and technical and economic development assistance have significant global impact--nutritionally, politically, and for American farmers, economically.

The situation with world hunger, as with American agriculture, is anything but simple. The lack of food in the Third World is the manifestation of many complex forces and situations. Famine in Africa or Southeast Asia is not merely a case of unfavorable weather, or a lack of resources, or any of a number of causes. There is enough food to provide nutritionally adequate diets to the entire population of the world. The problem we face is one of location, of cultures, of political systems, of infrastructure and transportation, of Third World debt, of educational levels and technical support, of world market forces, and on and on.

This convolution, itself frustrating and distressing, becomes more distressing, when one realizes the severity of the problem. The recent Ethiopian famine was responsible for making people aware of the enormity of the crisis, as well as a massive outpouring of public good will and several million dollars, thanks

to the efforts of those involved with projects such as Live Aid. But the bitter truth is that though public attention was only briefly focused upon central Africa, the problem has been there for many decades, and continues to exist. It is estimated that every day around the globe 40,000 people die from hunger, 27,000 of those are children; 15 million die annually because of malnutrition and related illnesses.

But, as disparaging and hopeless as the situation appears to be, we are doing something. Since the end of World War II, we have operated comprehensive direct efforts at alleviating world hunger and helping Third World countries to develop. Through the Agency for International Development and programs such as P.L. 480 (or Food for Peace) and agencies of the United Nations, the United States has worked to solve the problems of hunger and economic development. We spend hundreds of millions annually on P.L. 480 programs alone. In addition, we provide concessionary sales with favorable credit terms and liberal repayment schedules to many countries struggling to develop economically.

Our efforts accomplish many things. The most immediate effect we can have is to assist countries experiencing the severities of natural disasters. On another level, our efforts provide food security to many nations which do not have the capability of feeding themselves; with food security often comes political stability, and a country's economic resources are freed up for other aspects of economic development.

Where does the American farmer fit in to our country's foreign economic development efforts? Programs such as P.L. 480 serve as a channel for well over $1 billion worth of agricultural commodities. The obvious effect is to provide an outlet for our farmers goods. In addition, many of these projects open new markets for American products. The economic development that these food aid programs affect, over the long run, can lead to increased demand for our farmers' produce: Korea, Taiwan, and Japan--former recipients of U.S. food aid--are notable examples of countries which are now major markets for many of our commodities.

Most, if not all, experts will agree that the current surpluses of grain in the Farmer Owned Reserve and CCC stocks serve to depress our domestic commodity markets and reduce changes for improving farm income. These excess stocks will have to be dealt with if we are to begin to alleviate the farm crisis. Given that there are over 100 countries with a food deficit--that is, they consume more than they produce--it seems to me that food aid programs are an appropriate means of reducing these stocks, and I support increased commitments toward this end. However, recipient countries must accept the responsibility for insuring that those individuals truly in need actually receive the commodities and assistance we provide.

Regardless, food aid programs are no panacea for Third World economic difficulties or for those experienced by American agriculture. However, if used judiciously, they can influence both in a positive manner. Again, I commend the distinguished Senator for holding this hearing and look forward to the testimony of the witnesses.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, I am pleased to be here this morning as the Subcommittee on Foreign Agricultural Policy continues its series of hearings on agricultural trade problems. This morning's hearing entitled, "Overview of U.S. Food Aid Programs and World Hunger", is especially significant.

A bumper grain crop is expected this fall. Our current export and food aid programs have not been a significant help to our surplus problems.

As you know, the United States is able to consume only a portion of the agricultural products grown in our country. Much of the world relies on the United States to provide the grain they require. Likewise, the American farmer relies on our export and food aid programs to help create a market for his products and keep the world supplied with U.S. agricultural products.

The Foreign Agricultural Policy Subcommittee needs to research and develop additional opportunities of export for our agricultural products. This might be in the form of aid to needy foreign countries, or additional sales to our current trading partners. There is an obvious need to see that our agricultural goods are distributed throughout the world.

The storage problems which we will face this fall are signficant. It is my hope that through the use of our varied export tools, export and food aid programs, we can begin to address the problems of our surplus.

I suggest we work together to see that the interests of the American farmer are preserved.

STATEMENT OF HON. W. ALLEN WALLIS, UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS

Our food aid program has served us well. It has saved millions from starvation and malnutrition; more than any other aspect of our foreign assistance program it has come to symbolize the generosity of the American people. It has served as a vital foreign policy tool, helping our friends in the world make it through times of economic difficulty. It has helped develop world trade in agriculture in general, and has developed markets for U.S. agricultural goods in particular.

If I understand you, though, Mr. Chairman, you have not convened us today to talk about P.L. 480's role in humanitarian relief, its importance as a market development tool, or its utility as an instrument of foreign policy. You have asked rather about its performance as an engine of economic development.

P.L. 480 has had some great successes in this respect. For over thirty years our Title I concessional sales program, with accompanying economic reform or so-called "self help" measures administered by the Agency for International Development (AID), has operated in all regions of the world. Turkey, India, Korea, Taiwan, and Japan, for example, are all "graduates" of the Title I program. So far this fiscal year, the U.S. has committed roughly

$200 million each under this program in Africa, Latin America, Asia and the Near East. An innovative economic development tool, the so-called Title III "Food for Development Program" introduced in 1977, is a further means of encouraging economic reform in low income countries. The unique feature of this program is a multi-year supply commitment (subject to availability of commodities and appropriations) coupled with loan forgiveness.

In my own view, however, although recent performance of P.L. 480--and, indeed, of foreign assistance in general--as a catalyst for economic development has been encouraging, still more could be done.

It is not appropriate to turn this testimony into a lecture on development theory. Suffice it to say that one factor has played, I believe, a major role in the stagnation of a number of developing country economies. This is the corrosive expansion of Government spending, Government control, and Government intervention in the economy. Although perhaps inadvertently, foreign aid has at times played an unfortunate supporting role in this all consuming growth of government. This is because in among the poorest countries, most external resources come in the form of aid and virtually all aid is channelled through governments. By expanding the flow of resources controlled by the Government, this aid sometimes has had the effect of "crowding out" the private sector.

AID is aware of this risk and is giving increasing attention to actions affecting the private sector. AID's Bureau for Private Enterprise has broken new ground in assisting developing countries in the fields of investment promotion, technology transfer, export promotion and vocational training. Further steps in this direction should be encouraged.

This brings us to the subject at hand--recent changes in food aid programs enacted under the 1985 Food Security Act.

Section 1111 in particular provides an opportunity to engage the private sector directly in the process of development. Local currencies under the control of the U.S. Government, not the foreign governments, will be lent through private financial intermediaries in direct support of private commercial ventures, particularly in the agricultural area. If it is successful, it could take on significance well beyond its relative size in the budget.

The Development Coordination Committee's subcommittee on food aid has established proposed guidelines to implement this important new provision of the Food Security Act. An in-country policy group (IPG) will help establish guidelines for the terms of loans to appropriate financial intermediaries. In those countries where the Overseas Private Investment Corporation (OPIC) has relevant experience and competence, the in-country policy group is instructed to take this experience and competence into account fully. OPIC shall be advised in a timely manner of P.L. 480 Title I negotiations so it can make proposals for IPG approval.

Mr. Chairman, this new private sector lending program can succeed if it is administered with a minimum of red tape. It must be responsive to rapidly changing business conditions and be able to act quickly when an opportunity presents itself. Program administrators need to be familiar with business and comfortable dealing with the business community.

With respect to the future, we can hope that this program is a harbinger of things to come. In a way, it is also a reminder of

the past, when foreign aid went to support actual private sector investments a good deal more than it does now. We like to think that programs similar to the one we are now addressing (for Section 1111 is similar in many ways to the Cooley loan program which placed P.L. 480 funds at the disposal of U.S. firms) played a role in the early successes of countries like Korea and Taiwan.

Carol Brookins, Chairman of a State Department Private Sector Advisory Group on Food, Hunger, and Agriculture, has studied these issues in depth, particularly as they relate to hunger and malnutrition. She will give her views to the committee and I will let her testimony speak for itself. However, I would like to draw to the committee's attention one observation of her group that I believe is particularly relevant in light of today's discussion. The Advisory group points out that the salient feature of the hunger problem in the world today is not the overall lack of food, but the lack in certain areas of purchasing power. In other words, economic development and income growth are central to the resolution of the hunger problem.

The new P.L. 480 private sector lending program provides a promising way to administer our food aid programs in a way that not only will provide short term relief but also will lay down a foundation for economic development that can deal a more lasting blow to the threat of hunger. I am gratified by the increased attention these issues are getting both in Congress and in the executive branch.

STATEMENT OF JULIA CHANG BLOCH, ASSISTANT ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman. I am pleased to appear before the Senate Committee on Agriculture, Nutrition, and Forestry to discuss the food aid component of the Administration's foreign assistance program. I welcome this opportunity since your Committee so recently demonstrated its keen interest and concern for these food aid programs by reauthorizing them in the trade title of the Food Security Act of 1985. I will speak in a moment about th relatively quick and effective manner in which we have been able to implement the private sector initiatives which this Committee and the Administration both sought in the new legislation. Our success in this area is attributable in large part to the close, constructive dialogue which the Administration has had with the Congress right from the moment these new programs were being drafted. I am confident that this dialogue will continue and I view today's hearing as an important element in the effort.

At your suggestion, I have organized my comments into three major topics: the status of implementation of new provisions contained in the Food Security Act of 1985; lessons learned in previous food programs, particularly during the African famine relief effort; and prospects for the future, including our FY 1987 proposed program.

Implementing the Food Security Act of 1985/Private Sector Initiatives

Food for Progress

Mr. Chairman, as Undersecretary Amstutz and I indicated in our April 14, 1986 letter to you, the Development Coordinating Committee (DCC) was able to reach relatively quick agreement on implementing the Food for Progress program. Field guidance was sent to seven AID missions in Africa, inviting Food for Progress proposals. All seven missions responded, and in early May agreement was reached within the DCC to fully fund two projects--one in Madagascar, the other in Guinea--from the Section 416 resources made available for the Food for Progress program by the Food Security Act of 1985.

The selection of these countries for funding this year was based on criteria established in the President's Third World Hunger Study. In December 1984 this group had recommended a new tool for use in addressing global hunger problems. In short, the Food for Progress program was designed to use U.S. food resources to support developing countries that agreed to specific reforms in their agricultural policies. I think this Committee can be justifiably proud of the role it played in transforming this concept into reality; and I am confident that the pilot projects we are undertaking this year will match our expectations.

The Madagascar proposal is designed to build on that country's major privatization effort to date: the removal of state controls on rice trading. We plan to deliver 30,000 tons of Food for Progress rice in the next year for use in programs designed to ease the switch to a market economy in the principal urban area of Madagascar. Carefully targetted releases of this rice stock should prevent erratic swings in the market price, as the government removes its remaining controls on this commodity. Our Food for Progress rice is specifically intended to cushion the shock of such a policy shift, to make the change to free a market system less financially disruptive particularly to the urban poor. A joint NSC-AID study team just returned from Madagascar; they believe there is good reason to expect this effort to succeed. They reported, for example, that the Madagascar government in April licensed private traders for the first time to compete with the government's own rice purchasing agent in the two regions of the country where this parastatal still operates. Open competition has resulted, and the price in these regions has risen sufficiently--from 85 francs per kilo early this year to the present 150 francs per kilo--to create incentive for greater local production. There are problems--the continuation of a public rice distribution system in the capital, for example--but progress is being made in cutting this back. In Guinea, the Food for Progress proposal is tied to a wholesale package of economic policy reforms, many of which have been undertaken within the last several months. These reforms include: a 1,500 percent currency devaluation, closing of all government banks and replacing them with private banks, abolition of food rationing and state trading companies which had a monopoly over food imports; liquidation of most parastatals, reducing the civil service, and tying currency exchange to market rates. The 30,000 tons of Food for Progress rice which are being requested for Guinea will be aimed at promot-

ing competitive open markets, the setting of prices and exchange rates by these markets, and further privatization of the agricultural sector.

Local Currency Lending Program

I am particularly pleased to inform you today that we also have made great progress on what is clearly the most significant new initiative in the P.L. 480 program in years: the local currency lending program. This initiative, on which this committee worked so effectively last year, is on track.

With regard to another new private sector initiative in the Food Security Act of 1985, we have just sent out draft guidelines to our overseas Missions, detailing our plans to implement the P.L. 480 Section 106/108 local currency lending program. We think we have carefully incorporated into these guidelines the legislative intent of this new program. During the course of preparing the draft guidelines, the Interagency Committee benefitted at a few key junctures from the advice of your staff; and we expect to be working with them again, as our Missions comment on the draft guidance. Already our Missions in Tunisia, Morrocco, and Jamaica have expressed an interest in using local currencies to fund financial intermediaries which would be involved in private sector relending activities. There are other countries as well where we think this program would be welcome and appropriate. We expect to get several county initiatives underway as soon as possible.

Mr. Chairman, my comments thus far have been largely prospective in nature, a cursory look at what we hope to accomplish with the new legislation. I would like to shift gears for a moment to address an issue which I know is of almost equal interest to this Committee: the past performance of food-aid programs and what we have learned in this field.

Food Aid Lessons of the African Emergency

There is no better measure of our recent experience in food assistance efforts than the African drought and famine. The principal lesson we learned there is that there is likely to be future African droughts, but there need not be future famines on that continent. Effective use of the new legislation which I have just described will help immeasurably in this regard. But an equally important tool will be effective application of lessons we learned in the last year or so in Africa. The African food relief effort last year was both a sobering and an uplifting experience--sobering because of the drought's toll on human lives; uplifting because of the extraordinary response. Clearly the efforts of African governments, the donors and non-governmental organizations saved millions of lives.

Looking back, we can take great pride in our remarkable accomplishments. I think the Congress, the Executive Branch and the American public can be proud of the effective action we took in meeting this emergency.

By the fall of 1984 the continent was facing a near catastrophe involving 200 million people in 22 countries. The lives of 30 million people were in immediate jeopardy.

The United States alone committed more than $2 billion of emergency assistance. Americans contributed over $200 million through their churches, schools, non-governmental organizations, and corporations. Individuals from other nations did the same.

This overwhelming response offered a graphic demonstration of the willingness of people of many nations to work together to relieve human suffering.

Overall, the response of the United States and of the international community was magnificent. This is not to say it was perfect. The African emergency proved to be an educational experience with regard to the uses and limits of food aid.

I would like to quickly summarize for you a few of the lessons that we have learned from our experience. Let me start by drawing your attention to several of our most compelling findings and conclusions:

Lesson 1: Key information that was needed for early warning such as needs assessment, targeting and impact evaluation frequently was not available.

Although the drought was in its third or fourth year, African countries and the international community were not fully prepared for the severe conditions experienced in 1984-85. At times, neither host governments nor donors were able to act decisively in the absence of timely and accurate information.

The facts are that we now know a great deal about how to detect approaching famine. These methods, tested in the famine, include satellites to check weather and crop yields, weighing children to monitor the amount of malnutrition and tracking prices of food in local markets.

Lesson 2: The initiative for managing emergency food responses rests with host governments.

The emergency demonstrated that most of the affected governments have limited capacity to handle such large efforts. Selective strengthening of their general administrative capability in the next few years should be considered. This should be done in a way that does not just expand bureaucracies.

Lesson 3: Donor and host government coordination is critical to ensuring a more rapid and concerted response to drought emergencies.

Such coordination worked especially well when in-country donor coordination had been established prior to or early in the drought cycle. For example, in Mali, donors had already worked together on agricultural policy issues. Therefore, it was a logical step for them to be collectively involved in identifying and assessing the food emergency.

Lesson 4: The private sector--and particularly the non-governmental organizations--played a key role in the distribution of massive amounts of food, for example, to remote areas in Sudan, Mali, Chad, and Ethiopia.

Nongovernmental organizations, both local and foreign, helped identify groups and areas in need. They helped get the food to the countryside and monitored its distribution and end use. The private sector played a major role in the logistics arena. Private trucks were often a crucial link in delivering food to the rural population.

Lesson 5: Traditional coping mechanisms, such as community sharing and the consumption of famine foods (roots and tubers) were of critical importance in extending available food-aid to the people and preventing many deaths.

The availability of such foods was especially important in keeping people alive during the summer of 1985, just before the

last harvest. We need to be more alert to these coping mechanisms.

Lesson 6: Special expertise, administrative procedures and funding mechanisms are essential for the successful implementation of emergency programs.

The skills needed are not the same as those involved in carrying out a development program under ordinary circumstances. Emergency programs are different from, not an extension of, normal development activities.

Lesson 7: Food alone is not enough: other resources--including money, transportation, seeds, tools, and technical assistance--are also necessary.

Where complementary resources are available and linked with food, the results will be more positive and development ties will be stronger. Similarly, the impact of general food distribution programs can be increased by adding supplemental feeding and health care. The lack of a health component will weaken the impact of the overall effort, especially in meeting the needs of those who are most at risk. And finally,

Lesson 8: Emergency food-aid programs need to be designed and administered so they support longer-term developmental objectives, as well as keep hungry people alive.

The lack of adequate income is at the root of both underdevelopment and food emergencies. Household income is an essential link between development and emergency activities for those affected by drought. While development activities are aimed at increasing the income level of the poor, they do not always reach the groups most vulnerable to drought.

By the same token, emergency activities, which do reach those most at risk, are usually designed simply to feed them and reduce their suffering. I conclude that with better targeting of our development programs and more lead time, it should be possible to better bridge the gap between emergency and development.

A.I.D. takes these lessons seriously, and has already begun acting on them. Rather than elaborate here in detail on our plans, I might just mention a few of the actions we have already taken in the key areas of food needs assessment, donor coordination, and country capacity building:

Last year A.I.D. field-tested a simplified methodology we had drawn up to determine the magnitude of a country's food deficit--a first critical step in providing food-aid. What makes this methodology different from most others is that it is specifically designed to be used by the layman who is working on the ground in an emergency situation.

We have shared this methodology--presented in French and English manuals--with other donors and international assistance organizations. In addition, we are providing related technical assistance for a number of African countries.

This year we are sponsoring a training workshop in Africa for representatives of African governments and relief organizations in using the methodology, which has now also been converted to a personal computer program. In addition to helping African governments institutionalize their capacity to do sound assessments of their food situation, we hope that this workshop will provide an opportunity to reach a better understanding between the various relief organizations on common approaches to assess-

ing food needs so that faster and more effective coordination in times of emergency will be possible.

Fiscal Year 1987 Request

Finally, with regard to our overall program next year, the budget which we have submitted this year was prepared within the context of the Gramm-Rudman-Hollings legislation and the effort by the Congress and the Administration to address effectively the deficit problems which face the country. A strong US economy is essential to economic progress throughout the developing world. And a strong US farm economy is certainly a major element in that effort. Our overall request, as part of the President's budget, of course, is consistent with the plan that the Federal deficit not exceed $144 billion in FY 1987. For P.L. 480, an important part of the development effort, levels in the President's budget are below those in FY 1986, but we expect to be able to ship approximately the same amount of food as contained in our FY 1986 request--due largely to lower commodity and shipping costs.

We are also using our P.L. 480 resources to provide leverage for our policy dialogue efforts. The aforementioned new programs---particularly Food for Progress and local currency lending--will further emphasize this direction. In addition, we have already undertaken some new programs. In Tunisia, for example, the Mission has encouraged the distribution of fertilizers by private agricultural input dealers. Traditionally, fertilizer was sold by inefficient parastatals, with little private sector involvement due to the narrow margin on sales. As a result of successful dialogue in conjunction with a P.L. 480 Title I self-help agreement, the Tunisian Government increased the sales margin on fertilizers so that by 1984 there were some 168 private enterprises involved.

A.I.D.'s ultimate goal is a world in which economic growth and development are self-sustaining and extremes of poverty have been eliminated. The long-range foreign policy objectives of the United States are best served by a world of sustained economic development and general human well-being. Our task is to help poor people to help themselves through enhanced opportunity. This is a governing philosophy of the assistance program that we are submitting to you. We believe this program worthy of your continued strong support.

A not insignificant reason for this support is the belief, shared by this Administration, that economic development is one of the best ways to open markets and to increase trade. Food-aid--correctly used--has immeasurably helped developing countries. It has also helped to create wider demand for commercial US agricultural exports.

Mr. Chairman, I will be pleased to answer your questions.

STATEMENT OF CRAIG A. NALEN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, OVERSEAS PRIVATE INVESTMENT CORPORATION

Dear Mr. Chairman and Members of the Subcommittee: It is a pleasure to appear before you today on behalf of OPIC to testify about OPIC's administration of the Local Currency Loan program.

Introduction

Fifteen years ago, the Agency for International Development transferred to the Overseas Private Investment Corporation the sole authority to commit loans in U.S.-owned foreign currencies to private business applicants. The availability of these funds arose from the sale of U.S. farm commodity surpluses when our government accepted payment in local currencies rather than U.S. dollars.

Since OPIC began to administer this program, only Pakistani rupees have been available for loans to private businesses. Based on current estimates of availability for OPIC, we fully expect to commit the remaining U.S. $5 million worth of rupee funds by the end of the current fiscal year.

Since 1975, OPIC has committed thirteen loans in Pakistan involving 310 million rupees, or the approximate equivalent of U.S. $25 million. Activity has picked up recently with the result that six of these loans, nearly half, have been committed during the past four years. All OPIC commitments of rupee loans are listed on Schedule A to this testimony.

These projects are providing the Pakistani people with contributions to their economic and social development they would not have otherwise. This developmental impact is multiplied as the American companies owning and operating these projects continue to modernize production, train new employees, expand their product lines, and transfer technologies for the benefit of their Pakistani operations and their customers. By their fifth year of operation these projects should employ over 3,000 workers, 690 in management or professional positions. Net foreign exchange savings of $42 million per year will be realized primarily through import substitution. The projects will also pay $7 million per year in taxes and duties to the Government of Pakistan.

The projects are also beneficial to the United States economy by providing markets for U.S. equipment, through U.S. exports of a continuing stream of raw materials, and through financial returns to U.S. companies from their investments.

OPIC's ability to select those projects which offer such developmental opportunities in Pakistan, as well as U.S. trade benefits, derives from 15 years of experience working with U.S. businesses, large and small, as they expand their operations through investment in the developing world. This extensive experience makes a major contribution to those Third World countries seeking higher levels of foreign investment and a larger scope for the private sector. We hope to continue to contribute this experience under the new Food Security Act of 1985.

Discussion

The Overseas Private Investment Corporation has administered a local currency lending program since the early

1970s under a delegation of authority from the Agency for International Development. Only Pakistani rupees have been available for such loans. These rupees represent a portion of the proceeds from Department of Agriculture sales of U.S. surplus farm commodities under the Agricultural Trade Development and Assistance Act of 1954, as amended. The loan funds are made available to OPIC under Section 104(e) of that Act and pursuant to case-by-case allocations from the Office of Management and Budget.

Within OPIC, applications for these loans are reviewed by the corporation's investment officers to insure that the underlying project is commercially viable and meets other Congressionally mandated criteria. These officers are responsible not only for these local currency loans, but also for OPIC's U.S. dollar loan programs for start-up and expanding businesses in all the developing countries where OPIC programs operate. Over the past five years, OPIC's Finance Department has negotiated and signed commitments with 107 American-based companies, involving a total of $600 million in financing commitments. Seventy percent of these commitments are to U.S. small businesses or cooperatives. In all cases our analysis showed that the business activity financed would result in significant and identifiable beneficial economic and social development in the host country. Equally important, none of them shows a negative impact on the U.S. economy.

In Pakistan, OPIC has committed rupee loans only to companies which are at least partially owned by U.S. firms. This insures a transfer of business-owned technology, contributing significantly and continually to Pakistan's private sector growth. Specific projects include the production of animal and poultry feeds, the operation of chicken breeding facilities and hatcheries, the processing of agricultural commodities for local industries, the assembly of U.S. tractors for local farmers, and the formulation and packaging of pharmaceuticals improving human and animal health care and productivity in Pakistan.

While each of these projects is "developmental" in its contribution to the Pakistani society and economy, the OPIC loans are, nevertheless, "commercial" in character. We insist that the U.S. corporate owner, and any local joint venture partner, thoroughly research the project's feasibility and develop a comprehensive business plan, which we subsequently review. Approval by OPIC is by no means automatic. Unless each and every project meets reasonable commercial standards, OPIC's participation does not go forward.

Funding for each project includes a substantial cash equity investment by the owners. In accordance with OPIC's policy with respect to U.S. dollar commitments, OPIC's contribution generally does not exceed 50% of the total funds invested. The basis for this approach to project selection is that it more or less forces the owners of the company borrowing the funds to have a strong incentive to insure the company's profitability and continuing contribution to the health and welfare of its employees, customers, and suppliers and the wider community in which it operates.

These loans must be repaid to the U.S. Government. Consequently, OPIC negotiates a loan repayment schedule

permitting the borrower to meet that obligation out of operating earnings, but also requires in each case the guaranty from either the U.S. corporate parent or from a reputable commercial bank. In only one case have we had to invoke this guaranty. All active projects are current on loan payments or have fully repaid the loan. As a result of identifying and working with guarantors, OPIC's relationships with financial institutions in Pakistan are excellent.

Our procedures, built on over 15 years of evaluating and negotiating exclusively with private sector borrowers, are similar to the ones used by other major development and investment bankers. Policies and guidelines have been adopted to insure compliance with charters or enabling legislation.

In OPIC's case, we comply with additional guidance from Congress: OPIC's loan commitments cannot result in a negative impact on the U.S. economy or U.S. employment. During their first five years of operations, the 13 projects under the rupee loan program are estimated to generate $45 million in U.S. exports and have a positive $48 million effect on the U.S. balance of payments. In addition, 700 man-years of U.S. employment will be generated in producing the goods and services procured in the United States.

We try to give prospective loan applicants clear, non-bureaucratic guidance on our policies and capabilities as applied to their own particular case. We attempt to respond quickly to the basic eligibility of their loan request -- and thereby save them, and us, valuable time if we must turn them down.

We hire, train, and promote the best investment officers we can find. This results in a high level of professional competence which not only protects the U.S. Government's interests but also promotes confidence within the business community. As the chief financial officer of a midsized U.S. company recently said, "OPIC showed the kind of professionalism I'd learned to expect from only purely private sector organizations".

Finally, we support each loan with legal documents prepared by experienced legal specialists, and we have arranged for each loan to be monitored under an effective system, checking the borrower's compliance with the loan documents.

Conclusion

Overall, I believe the record indicates that OPIC has done an effective job in administering the government's program of local currency loans for U.S. firms that have had a strong developmental impact on the host country as well as significant positive benefits for our U.S. economy. Although this program is coming to an end with the available funds running out, we look forward to participating in the new Food Security Act of 1985 in any way that is deemed feasible.

OPIC RUPEE LOAN COMMITMENTS IN PAKISTAN

As of July 10, 1986

FY	Borrower	Description	Guarantor	Rs. Amount
1975	Premier Tobacco Industries, Ltd.	Tobacco processing	Phillip Morris, Inc.	Rs.11,917,200
1975	Rafhan Maize Products, Ltd.	Corn milling	CPC International	Rs.19,900,000
1979	Rafhan Maize Products, Ltd.	Corn milling	CPC International	Rs.40,000,000
1980	Arbor Acres Pakistan Limited	Poultry raising and processing	American Express International Banking Corp.	Rs. 7,425,000
1980	Abbott Labs (Pakistan) Ltd.	Manufacture and distribute pharmaceuticals	Abbott Laboratories	Rs.25,000,000
1981	Merck Sharp & Dohme Pakistan, Ltd.	Manufacture and distribute pharmaceuticals	Merck & Co., Inc.	Rs.29,000,000
1982	Arbor Acres Pakistan, Ltd.	Poultry raising and processing	American Express International Banking Corp.	Rs.14,850,000
1983	Squibb Pakistan, Ltd.	Manufacture and distribute pharmaceuticals	Standard Chartered	Rs.41,625,000
1983	Allied Tractors, Ltd.	Manufacture agricultural tractors	National Development Finance Corp.	Rs.50,000,000
1984	Johnson & Johnson Ltd.	Manufacture and distribute surgical supplies and pharmaceuticals	Johnson & Johnson	Rs.24,000,000
1984	Searle Pakistan, Ltd.	Manufacture and distribute pharmaceuticals	G.D. Searle & Co.	Rs.16,600,000
1985	Eli Lilly-Gohar Private Ltd.	Manufacture and distribute antibotics	American Express International Banking Corp.	Rs.16,000,000
1986	PDC Cargill Feed, Ltd.	Animal feed production	Cargill, Inc.	Rs.14,400,000
Total Funds Committed				Rs.310,717,200

STATEMENT OF CAROL BROOKINS, PRESIDENT, WORLD PERSPECTIVES, INC.

Mr. Chairman, I want to thank you for this opportunity to appear before the Subcommittee on Foreign Agricultural Policy to assess the food aid provisions of the 1985 Food Security Act.

The 1985 law contains some important policy directives which, if carried out effectively, can help to advance our dual objectives: improving the diets of people throughout the world and increasing the development of markets for U.S. agricultural exports.

The three significant sections in this regard are the provisions under section 416 Food Donations, Local Currency Repayment of Title I Public Law 480 (P.L. 480) loans and Food for Progress.

I would like to state directly five suggestions which would more fully utilize the benefits that our food aid programs can yield.

1. Increase our total food aid commitment through section 416 and P.L. 480 by raising funding levels or use of in-kind commodities.
2. Provide for multi-year commitments under P.L. 480, and increase the program's flexibility by not requiring fiscal year deliveries.
3. Examine ways in which P.L. 480 and section 416 can be more fully incorporated into our overall strategy for economic development and debt management by using expanded food aid as means for providing financial transfers to recipient countries who are undertaking structural economic reforms.
4. Direct all food aid proceeds in recipient countries to effective private sector development and capital formation.
5. Involve the U.S. agricultural cooperators and other knowledgeable trade groups directly in programs which provide funding for economic and agricultural development in the food aid recipient countries.

Before discussing the potential benefit of these initiatives, I would like to take a few moments to examine relevant aspects of the food aid issue, and its relationship to the future of American agriculture.

Our problem with exports today is not only that production levels have risen in recent years due to technology advances, domestic subsidy policies and an artificial price incentive that has encouraged expansion world-wide. We are also in a world where demand growth has slowed because of a number of factors. One of the most important is low or negative income growth in major markets for agricultural export expansion--the developing countries (LDCs).

Low effective demand, or purchasing power today, means lower export potential, although food needs continue to rise. This is a crucial factor in assessing the future outlook, because there is substantial evidence that import demand for grains or cereals is highly elastic with respect to income.

When developing countries have low economic growth rates, this adversely affects purchasing power. Global recession, poor domestic economic policies, the ongoing debt crisis and reverse flows of money out of these countries has severely constrained demand since 1981. Between 1980-1983 the developing countries have had real growth of GDP of less than 2 percent per year compared with

more than 5 percent per year during the 1970's. And, when population growth is considered, may of these countries had negative real income growth.

Background—The Food Aid Debate

I will not discuss in detail the history of the U.S. food aid program, except to point out that from the very outset of the 1954 legislation, many notable successes in achieving our dual objectives have been well-documented. However, there is, as you well know, a long-standing debate about whether food aid hurts or helps the recipient country in providing a stable and expanding food supply to its people.

Many opponents of food aid claim first that food aid hurts a country's ability to feed itself. These people argue secondly that if a country does not direct its resources toward self-sufficiency in food production, it will not sustain a healthy economic performance.

Certainly, our trade conflict today with the European Community (EC) raises serious challenges to the first criticism. Did food aid from the U.S. to France and Italy hurt their agricultural production development? In another instance, food aid shipments to India have been cited as a major catalyst for that country's agricultural development and ability to utilize the technology that produced the "green revolution". Brazil and Spain were food aid recipients and their agricultural base has nonetheless expanded considerably.

Joachim Von Braun and Barbara Huddleston analyzed this issue in a 1984 paper prepared for an International Food Policy Research Institute (IFPRI) workshop on food and agricultural price policy.(1) They cited studies which showed that a number of countries that received a high amount of food aid over an extended period of time were successful in achieving food production growth in that time frame. "It is startling that this group of 16 countries, which achieved annual growth rates in food production of 3.9 percent over 1961-1976, simultaneously received about 80 percent more food aid per capita than the average food aid recipient country," they noted.

The paper concluded that: "A clear-cut negative or positive relationship between supply of food aid and growth in food production certainly does not exist. Government policy plays a crucial role in this regard. Achieving high growth in food production and receiving high amounts of food aid are not mutually exclusive." In other words, food aid is essentially neutral, but if it is utilized effectively in the recipient country, it can have significant value.

I'd like to respond now to the second criticism linking food self-sufficiency with economic strength. If one uses the criteria of agricultural self-sufficiency to determine a country's economic viability, then how can one explain the fact that Japan is the world's second largest economy today and a major importer of agricultural products. There are many more examples in this regard, including Taiwan and South Korea. And, of course, look at the U.S.--the largest agricultural exporter and importer. A country can sell products that it has a comparative advantage in producing and buy other agricultural goods, while still maintaining a strong agricultural sector.

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In fact, a paper published in 1985 by Mr. Keith Marsden, an adviser at the World Bank, provides additional support to this position.(2) Mr. Marsden analyzed the economies of seventeen Asian and African countries in East Asia and Sub-Saharan Africa over the 1962-1982 period to determine why levels of economic growth were or were not achieved.

Mr. Marsden concluded that the poor performance of many African countries was not necessarily related to a growing dependency on imported foodstuffs, which tie up scarce foreign exchange. He noted: "Periodic drought has affected agricultural output in Africa, but so have defective pricing, exchange rate and marketing policies. Long-run economic growth does not appear to be negatively linked to the level of food imports. In fact, the two countries with the highest levels of cereal imports per capita in 1982, Korea and Malysia, are both in the high growth category...countries with unfavorable or instable soil and climatic conditions may find that it makes more sense to exploit other areas of comparative advantage, rather than aim for food self-sufficiency."

Additionally, several African countries in the high and medium growth category--Cameroon, Kenya, Malawi and the Ivory Coast continued to import cereals while expanding their agricultural output during the period.

Clearly, then, history shows that economic success is not dependent upon a strong agricultural base, particularly if a country puts its resources into marginal agricultural production that cannot be sustained except at a high continued cost.

The Economic Development Issue

Linked to food aid considerations are economic development strategies, because only as countries are able to achieve higher rates of economic growth will they be able to feed their people better.

I have served since December, 1984 as Chairman of the Private Advisory Subcommittee to the Department of State on Food, Hunger and Agriculture (under the Advisory Committee on Investment, Technology and Development). The subcommittee was mandated by President Reagan's National Security Decision Directive 143 (July 9, 1984).

Before examining the role that food aid and the provisions of the Food Security Act can play in enhancing economic performance in recipient countries, I would like now to briefly share with you what we determined. A copy of our initial recommendations is attached; these were transmitted to the Under Secretary of State for Economic Affairs, W. Allen Wallis, on April 4, 1986.

We concluded that the key to developing country food security lies in strengthening the domestic economy, thereby increasing purchasing power in areas of the world plagued by chronic hunger. At a time when foreign assistance resources are increasingly scarce, and commercial lending is virtually non-existent, we stressed that it is more important then ever before to target those resources where they can be used most productively--in strengthening the private sector, which is the ultimate engine of economic growth.

In this regard, we recommended specifically that the U.S. Government's economic development assistance be administered by a

single U.S. development finance institution which would provide investment means and incentives on market terms, encourage private sector investment through risk sharing and serve as a focal point for U.S. economic development assistance generally.

This report covering U.S. economic development assistance followed a preliminary list of general recommendations which we had given Under Secretary Wallis on November 14, 1985. These additionally suggested:

I. Encouraging agribusiness investment that would more directly integrate where applicable the agricultural sector in commercial activities;

II. Strengthening coordination and communication between business and private voluntary organizations and technical assistance groups;

III. Strengthening private financial institutions and services that facilitate private agricultural production and distribution;

IV. Establishing a U.S. Government-sanctioned, privately-funded, private sector network of organizations to provide short-term business training and assistance to developing country enterpreneurs and Government officials.

V. Providing for local currency repayment of Title I P.L. 480 loans to be used for private sector development in the recipient countries. (Congress did include this provision in the 1985 Food Security Act. It was originally proposed by the President's Task Force on International Private Enterprise).

We made these recommendations because development assistance is not a guesswork game anymore. We have had forty years of experience to learn what works and what doesn't, and the record is very clear. History has shown that a country's economic activity expands most rapidly and successfully through the private sector. Mr. Marsden's study, among others, has demonstrated that there is a direct positive relationship between economic growth and an increase in the real rate of growth of private credit. In other words, it is the supply of capital to the private sector that is the engine of growth.

The report of the President's Task Force on International Private Enterprise, charged by Dwayne Andreas, further substantiates this view in its recommendations. The Andreas task force strongly supported private sector capital development.(3)

It is within this framework that we must examine our food aid program to see if it is serving that objective.

Food Aid Policies and the 1985 Food Security Act

Quite obviously, food assistance can be an increasingly valuable asset of the U.S. Government in providing the power for the engine of economic growth in many LDCs, which over time can build new commercial markets for U.S. agriculture and industry.

We now have considerable flexibility and the tools to begin to channel food aid in ways that can enhance private sector investment and development. I'll briefly review these now.

1. Food for Progress authorizes up to 500,000 mt/year (1986/90) of surplus CCC commodities as grants to countries who have agreed to undertake certain types of policy reforms which will enhance the free market in their agricultural sectors. By giving a country cereals or other commodities to help provide a measure of stability of supply and price during a difficult time

of structural adjustment, the U.S. can help to leverage those policy changes. The question is whether we will be willing to expand this program if the initial test cases begin to show results, and how we can utilize this in conjunction with other initiatives given its small size.

2. Sales for local currency (Section 108) under Title I of the Public Law 480 program provides for repayment to the U.S. Government in local currency of 10 percent of the Title I allocation. That money is to be channeled to private sector investment through intermediate financial institutions (IFIs). Within this provision, no less than 5 percent of the local currency is to be used for technical assistance and other activities related to market development. This is a very small amount of money moving directly to the private sector; other local currencies are host-government owned and programmed by aid agreements. The question is whether this local currency repayment program can be developed and expanded to include larger shares of Title I. Additionally, aid self-help agreements which are negotiated as conditions of P.L. 480 agreements might also be required to include substantial transfers of capital to the private sector.

3. Expanded authority to utilize surplus government-owned (CCC) commodities in international programs under Section 416 of the Agricultural Act of 1949 can provide additional food aid resources. There are provisions for monetization by PVO's of these funds as well as of Title II of P.L. 480. Also, the 1985 Act permits Section 416 commodities to move to countries without safeguarding the usual marketing requirements (UMRs) in countries that "do not have adequate financial resources to acquire the commodity from the United States through commercial sources or through concessional sales arrangements." (Sec. 1109.3.B). The question is whether this provision will be interpreted in a way which permits greater use of 416 donations to debt-burdened countries.

However, it is apparent that, despite this positive start, problems remain in interpretation and implementation. The programs themselves are only a small beginning in developing a long-term commitment and strategy for enhancing food consumption and markets. Yet, they are vital at this point in history for several reasons.

Most importantly, the U.S. foreign assistance budget is being cut back substantially in FY 87. There are some estimates that the P.L. 480 authorization may be cut by more than 20 percent. Budget-cutters argue that low commodity prices justify reductions in the program, while still providing for the same programmed volume level of food assistance.

In the case of agriculture, it has been clearly proven, that future U.S. agricultural export expansion will primarily be to the LDCs. The faster that LDC economic growth improves, the sooner our own agricultural sector will be strengthened. Lower food aid and foreign assistance would be serious setback in any plans to further the economic recovery in developing countries.

It is shocking to think that we would consider cutting back food aid when it is the development of these countries as buyers of our agricultural goods which is critical for a viable future in our own agricultural sector.

To give some idea of the harm this would do, it is worth looking at the position LDCs are in today. U.S. net disbursements of

official development assistance (ODA) rose 9.7 percent to $9.56 billion in 1985; other official flows (OOF)--non-concessional flows from government sources, such as export credits, and non-concessional loans--fell to only $74 million from $1.023 billion in 1984. At the same time, private flows at market terms shifted to an unprecedented $9.032 billion net flow to the U.S. in 1985. In other words, total ODA flows to the LDCs were nearly totally offset due to high LDC repayment levels on existing loans, and virtually negligible new lending to LDCs by commercial banks.

We are today spending billions of dollars--more than $25 billion this year--to reduce production, support farm income and to carry record stocks, at a cost not only in budget terms but in overall U.S. economic activity. We cannot forget the negative impact on industries within and related to agricultural production, processing, transportation and exports when trade falls.

I am not saying that we should continue to produce surpluses--unjustified by market realities--to dump on the developing world at heavy subsidies to our own producers and overseas recipients. However, we are at an unusal point in time today when, because of past domestic and foreign policies we have built up massive stocks of grain and other commodities that are costly to store and carry. This is occurring at the same time as many food aid recipients could use more foreign assistance to help them restructure at a time of economic crisis. Food aid is a popular program and carries wide-ranging support with the American people.

This leads me to believe that with overall foreign assistance levels pared back and commercial lending essentially non-existent, food aid remains far too low as a priority both in our overall development strategy and agricultural programs. Many finance officials claim that food aid is an "inefficient" way to transfer resources to a country. However, if there are negligible "other" financial resources, it would seem that food aid might provide an important vehicle for providing additional capital to countries strapped for hard-currency.

For example, if a country must import a certain quantity of food, and only a certain percentage of that is covered by current food aid agreements, that means the country must spend scarce foreign exchange just to meet minimum food needs. This means the country either must forego a portion of food imports in order to have adequate money to buy capital goods necessary for economic development, or buy food which endangers overall investment in economic growth and their future as a market.

If the amount of food imported through long-term concessional loans is expanded, it could free up foreign exchange in the short-term. To be effective, however, the food aid has to be programmed in a coordinated way so that it is directly tied to overall economic adjustment strategies. And, if the money the government earns internally from sales of the imported food is required to be channeled to productive private sector investment, the food aid can become "money" to fuel growth.

Our food aid programs are currently managed primarily by the Agency for International Development (AID) which has many different objectives in framing its assistance programs in individual countries. Some of these can conflict with timely efforts to finalize food aid agreements each fiscal year. That is why I believe we must consider flexibility in fiscal year deliveries so

that we do not lose program movement because of delays in negotiating agreements.

Additionally, with U.S. food aid an annual rather than multi-year commitment, the willingness of a recipient country to undertake a difficult policy change is reduced, because it cannot count on an onging supply from the U.S. as well all well know, our own history of food aid commitments is certainly no bright example of consistency. We cut back food aid sharply in the 1970's when commercial demand was overflowing, prices were soaring, and the food aid needs of many LDCs--our future markets--was greater than ever.

Although aid is officially committed to moving resources directly into private sector capital development, it has in many cases been very slow in carrying this through. AID continues to place heavy emphasis on government/government tranfers, while many people out in the field do not have a working knowledge of business principles and private sector practices. AID apparently also has focused its emphasis in agriculture in recent years heavily on the production side--on self-reliance in agriculture--rather than the overall structure of the food system and the relative comparative advantage in private enterprise that a country might have in other sectors than agriculture.

The primary thrust of aid over the past decade has been on implementing a "basic human needs" (BHN) policy, which has concentrated on developing a set of socially oriented programs to help people in LDCs. I believe that meeting basic human needs must continue to be a primary focus of our development strategy; however, basic human needs can best be met on a sustained basis by opportunities for real income generation.

So, if we are serious about using our food aid resources to spur economic development, we must make sure that there are adequate people skilled in commercial markets and qualified to assess business opportunities in administering the monies available for that purpose. Certainly, the U.S. agricultural cooperators and other knowledgeable trade groups should have an expanded role to play in that regard, as they blend the strengths and talents of our producers and commercial sector.

Our cooperators and trade groups could well become the most important arm of assistance for our efforts at meeting food needs. They understand food systems and markets; they understand private business and the use of capital. We might consider giving them a strong role in developing and carrying out programs currently being managed by AID personnel.

Conclusion

In conclusion, Mr. Chairman, we are on the right track, but we have a long way to go. However, this is the only way we can go if we want to build the basis for sustained development of our own agricultural sector and that of the developing country markets who are recipients of this assistance.

The World Bank published a report in March of this year entitled: Poverty and Hunger: Issues and Options for Food Security in the Developing World.(4) The report noted that more than one-third of the population living in the developing world (or around 730 million people)--excluding China--still does not eat well enough to lead an active, working life. Nearly half of these

are barely subsisting on a minimum survival diet. The numbers of people who are malnourished is increasing.

This report defines food security as providing people an adequate diet, and states that the main force that can deliver food to people is purchasing power. Even in countries like India, which claim self-sufficiency today, many people are going hungry. The bank points out that: "in the long run, poverty alleviation linked with economic growth is the best way to reduce malnutrition."

Food insecurity, in other words, can be relieved only by raising the real income of households so that they can afford to acquire enough food. This is done by giving people opportunities to earn an adequate income and by ensuring a food supply through domestic production or imports.

The bank recommends in this regard that food aid can make an important contribution to food security if it is coordinated with other forms of economic assistance and if donors make multi-year food aid commitments with flexible drawings so it can more effectively be utilized.

I can think of no better objective of our own "Food Security" Act than to act as a vehicle to provide a real, sustained measure of food security to developing countries. In order to achieve this goal, we need to enlarge upon the provisions enacted in 1985 to utilize food aid in meeting private sector economic development. If we commit our resources and skills to this end, our generosity, as past history of the program has shown, will be rewarded many times over in expansion of a viable marketplace for U.S. producers. Thank you.

Footnotes

1. Joachim von Braun and Barbara Huddleston, "Food Aid in the Context of Price Policy and Production Incentives," prepared for IFPRI Workshop on Food and Agricultural Price Policy; Belmont Estate, Elkridge, Maryland (April 29 - May 2, 1984).

2. Keith Marsden, "Private Enterprise Boosts Growth," Journal of Economic Growth, Vol. I, No. I, (1986).

3. The President's Task Force on International Private Enterprise: Report to the President, President's Task Force on International Development with the Cooperation and Support of the Agency for International Development, (Washington, D.C.: December 1984).

4. Poverty and Hunger: Issues and Options of Food Security, The International Bank for Reconstruction and Development/The World Bank (Washington, D.C.: 1986).

United States Department of State

Washington, D.C. 20520

April 4, 1986

The Honorable W. Allen Wallis
Under Secretary of State
for Economic Affairs
Department of State
Washington, D.C. 20520

Re: Report of the Subcommittee on Food, Hunger and Agriculture in Response to NSDD #143 of July 9, 1984

Dear Under Secretary Wallis:

I am pleased to submit to you the Report of the State Department's Private Sector Advisory Subcommittee on Food, Hunger and Agriculture concerning our summary recommendations V - directing foreign assistance to support private sector development and VI - enhancing multilateral development bank support for private sector development. This report is in response to the White House Food Aid Initiative of July 10, 1984.

The report has been submitted to and reflects a consensus of members of the full Subcommittee, which is under the auspices of the Department's Advisory Committee on Investment, Technology and Development. Since part of our charge was to "share information on Third World hunger and food production," we are also soliciting approval from a broad spectrum of corporations and other private sector entities.

Thank you very much.

Sincerely,

Carol Brookins

Carol Brookins
Chairman, Subcommittee on Food,
Hunger and Agriculture, Advisory
Committee on Investment, Technology
and Development
Department of State

UNDER SECRETARY OF STATE
FOR ECONOMIC AFFAIRS
WASHINGTON

8610755

April 8, 1986

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Dear Carol:

I would like to thank you for the excellent job you have done in putting together your Subcommittee's report on directing foreign assistance to support private sector development. As we have discussed, I agree with you that development of private enterprise, particularly in the agricultural sector, is crucial to any country's economic development.

I have taken the liberty of forwarding your report to the NSC; I am sure your group's work will make an important contribution to continuing discussions over the proper role of foreign assistance in economic development.

Once again, let me express my appreciation for the enormous amount of work that you have put into this task.

Sincerely,

Allen

Allen Wallis

Ms. Carol Brookins,
President,
World Perspectives Inc.,
1701 K Street, N.W.,
Washington, D.C.

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United States Department of State

Washington, D.C. 20520

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April 8, 1986

MEMORANDUM FOR VADM JOHN POINDEXTER
THE WHITE HOUSE

SUBJECT: Private Sector Advisory Group Report on Directing Foreign Assistance to Support Private Enterprise

In July, 1984, as a result of the President's Third World Hunger Initiative, NSDD 143 established a Private Sector Advisory Subcommittee on Food, Hunger and Agriculture under the auspices of the State Department's Advisory Committee on Investment, Technology and Development.

The Subcommittee has produced the attached report on directing foreign assistance to support private sector development, particularly in the agricultural sector. It recommends that U. S. economic development assistance be administered by a single development finance agency. The Subcommittee plans to continue work on several other recommendations relating to food systems in developing countries.

Nicholas Platt
Executive Secretary

Attachment: As stated.

REPORT ON DIRECTING FOREIGN ASSISTANCE TO STRENGTHEN THE PRIVATE SECTOR

OF

THE FOOD, HUNGER AND AGRICULTURE SUBCOMMITTEE,
PRIVATE SECTOR ADVISORY COMMITTEE ON INVESTMENT,
TECHNOLOGY AND DEVELOPMENT,
DEPARTMENT OF STATE

IN RESPONSE TO

PRESIDENT REAGAN'S NATIONAL SECURITY DECISION DIRECTIVE 143
OF JULY 9, 1984

April 4, 1986, Washington, D.C.

I. THE CHARGE

On July 9, 1984, President Reagan issued National Security Decision Directive 143 which inter alia directed the

> "formation of a Third World Food Problems Subcommittee under the State Department's Advisory Committee on Investment, Technology and Development, to permit business leaders to share information on Third World Hunger problems and to address these concerns in a cooperative manner."

II. BACKGROUND

The Subcommittee's first and foremost recommendation dealt with the question of directing foreign assistance resources to private sector development. This issue was deemed to be of crucial importance to the solution of the long term hunger problem because:

1. Only through economic development can poor regions assure themselves of adequate food security, either by growing or buying food;
2. The best engine of economic development is a healthy and relatively unfettered private sector;
3. For most poor countries, foreign aid is the main source of external capital. Their futures can depend on whether this capital is used in productive, market oriented investments or in public sector consumption.

The essential role of economic development in eliminating hunger was underscored in last month's World Bank report - Poverty and Hunger - Issues and Options for Food Security. This report concluded that the long-run solution to the hunger problem lies in increasing purchasing power, both for poor nations and for poor regions and populations within countries, and not in expensive policies of self-sufficiency or national grain stock building. The report cited the crucial importance of the agricultural sector - not just for food production, but for income generation in poverty stricken rural areas.

The Subcommittee is concerned that, despite the Administration's 5-year commitment - from Cancun to Seoul - to an enhanced role for the private sector in Third World development (see attached summary of Administration policy), only about 15% of U.S. economic

development assistance (and less than 5% of our overall economic aid) is spent in support of private sector development. This estimated percentage figure has remained unchanged for six years. Moreover, a large share of this amount goes to projects that produce little or no direct impact on private sector investment.

III. RECOMMENDATIONS

Consequently, the Subcommittee recommends specifically:

1. That U.S. economic development assistance be administered by a single U.S. development finance institution, as is the practice of other major donors (the UK, the FRG, and the EC, for example) as well as, increasingly, multilateral development banks (the World Bank's IFC and a new facility at the Asian Development Bank). This institution should:
   a. Provide investment means and incentives on market terms for private enterprise;
   b. Encourage private sector investment through risk sharing; and
   c. Serve as a focal point and forum for U.S. economic development assistance efforts generally.

It is expected that this institution will meet regularly with business leaders for advice on program operation. The perspective of potential private sector investors will be useful in developing procedures that are businesslike, efficient and responsive.

2. Beginning in fiscal year 1987, at least 30% - double the existing portion - of U.S. economic development assistance should be made available for direct private investment through this institution, with further increases in subsequent years. Because the agricultural sector in developing countries plays such a crucial role in producing income, food system development should be a priority.

Both indigenous private businesses and U.S. direct agribusiness investors should be eligible to participate in such economic development initiatives.

Accordingly, the following types of investment mechanisms would be appropriate for this funding:

   a. Equity or convertible debt investment as seed capital for start-up ventures;
   b. Revolving loan or equity funds made available through financial intermediaries;
   c. Guarantees and insurance to cover U.S. private direct investment. This has proven to be particularly useful in encouraging investment;
   d. Cofinancing to provide private lenders and direct investors with added capital and the protection that U.S. government involvement brings;
   e. Feasibility studies by businesses able and willing to invest and participate in any follow-up project; and

3. Descriptions of all economic development assistance programs beginning in FY-87 should be structured in business terms, including profit/loss, projected return on equity, prospects for private financing, and other "botton line" considerations. This will facilitate comparison of proposed projects, as well as consideration of their market and non-market aspects.

4. To the maximum extent possible, such expanded U.S. development finance should be administered in ways that will encourage

appropriate policy responses in recipient countries and should be coordinated with similar activities by multilateral institutions.

IV. Conclusion

The Subcommittee cannot overemphasize that the key to developing country food security lies in strengthening the domestic economy, particularly the agricultural sector, thereby increasing purchasing power in areas of the world plagued by poverty and hunger. At a time when foreign assistance resources are increasingly scarce, it is more important than ever to target those resources where history has demonstrated they can be used most productively - in strengthening the private sector, the ultimate engine of economic growth and income generation and therefore the only long run guarantor of world food security.

METHODOLOGY AND WORK PROGRAM

The Subcommittee and/or its working group met ten times and heard from guest experts from a number of institutions, including the World Bank, the International Finance Corporation, the Department of State, the Agency for International Development (especially its Bureau of Private Enterprise), the Overseas Private Investment Corporation, the International Executive Service Corps, and the Export Import Bank. The Subcommittee also heard from a number of private firms that specialize in agribusiness investments in developing countries (the Caribbean Basin Corporation, Western Agri-Management, Griffin-Brand, and Prairie International). The Subcommittee also relied heavily on the collective "hands on" experience of its own members, many of whom have devoted years to finding solutions to economic problems in developing countries. The membership of the Subcommittee is drawn from a wide spectrum of the private sector - see attached list.

The Subcommittee plans to continue work on the remaining recommendations adopted at its November 14 meeting:

A. Encourage agribusiness investment that makes optimal use of indigenous institutions, crops and human resources. This could include indigenous crop and livestock research, and, where applicable, mechanisms that would more directly integrate the agricultural sector in commercial activities.

B. Strengthen coordination and communication between business and private voluntary organizations and technical assistance groups, as well as coordination with national and international agencies.

C. Strengthen private financial institutions and services -- such as commercial banks and credit cooperatives -- that facilitate private agricultural production and distribution.

D. Establish a U.S. Government sanctioned, privately-funded, private sector network of organizations to provide (primarily short-term) business training and assistance to developing country entrepreneurs and government officials.

The Subcommittee will follow the implementation of these recommendations, monitor the results, and report periodically to the Undersecretary of State for Economic Affairs, the Committee on Investment, Technology and Development and the U.S. private

sector. It will keep the President informed of its work and its recommendations.

SUMMARY OF MAJOR ADMINISTRATION POLICY STATEMENTS ON THE PRIVATE SECTOR IN DEVELOPMENT

1. President Reagan's statement at the Cancun Summit of October 22, 1981 where he set forth a "positive program of action for development", one of the goals of which was "improving the climate for private capital flows, particularly private investment". Lauding the "individual farmers, laborers, owners, traders and managers" that are the "heart and soul of development", the said the role of government was to create "incentives to work, save, invest, and succeed".
2. President Reagan's International Investment Policy Statement of September 9, 1983, where he pointed out the "vital and expanding role" played by international direct investment. He also encouraged the "multilateral banks to explore ways to strengthen the private sector role in facilitating financial flows to the developing world". He laid great stress on supporting private direct investment in developing countries. The multilateral development banks have, in fact, increased their private sector lending substantially in the last few years; in addition to the World Bank's IFC, the Asian and Interamerican Development Banks have both established and funded facilities to invest directly in the private sector in developing countries.
3. The Report of the President's Task Force on International Private Enterprise, which urged greater support for programs promoting trade with and investment in developing countries. It recommended that the U.S. "not channel its foreign assistance resources to the government, but to the private sector in developing nations."
4. Treasury Secretary Baker's statement at the World Bank - IMF meeting in Seoul, October 8, 1985, which quoted approvingly from Brazilian President Sarney that "private enterprise must be the flagship of our economic development". Secretary Baker called for "increased reliance on the private sector and less reliance on government to help increase employment, production and efficiency", and "market opening measures to encourage foreign direct investment". He pointed out that "equity...can have a compounding effect on growth, bring innovation and technology..."

WORLD VISION RELIEF ORANIZATION
Tom Getman, Assistant to the President

Testimony before the
SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

July 15, 1986

Mr. Chairman, World Vision Relief Organization appreciates this opportunity to testify on hunger and U.S. food aid programs. World Vision played an active role in the African drought relief effort and is currently involved in development assistance programs in 30 African nations, as well as 50 other countries around the world.

The most common question asked about Africa today is whether there is still a great need for food assistance. Since the rains came and the past season permitted fairly favorable crops, this may give the perception that a terrible, but temporary episode has passed. As the recent Washington Post series on "Africa's Children" points out, nothing could be further from the truth. The need is as great as ever.

Even in a good crop year, African nations suffer from widespread chronic malnutrition. Although the donations during the peak of the drought may have staved off mass starvation, the underlying causes and continuous hunger still exist. Despite an encouraging production year, the economies are so poor that commodities and goods cannot be purchased on the market. People cannot buy food -- but they need food.

Thirty-eight of the 43 African countries receive some form of food assistance -- either as direct donations and/or subsidized sales. They may have some locally available produce, but overall, they need more and different kinds of food than they can produce.

I am not advocating a wholesale giveaway of U.S. surplus stocks to continuously feed African, or other nations with pockets of chronically poor and hungry people. Hunger is a developmental problem. Giving food for direct distribution has a role, but only a limited one. We need to use the flexibility provided in the Food for Peace Program to remove the causes of poverty.

African nations, as an example, could still use about the same amount of food they have been receiving under the emergency famine relief. World Vision would be able to make use of food in nearly all African countries, but only if we could sell it, using the generated local currencies for developmental activities.

Food for Peace has always permitted the sale and barter of commodities to support a variety of activities. Last year the Congress re-emphasized that such uses are appropriate. Plus, the Food Security Act of 1985 clearly stated that sales and barter are permissible under Section 416, the surplus commodity disposal program.

It would seem prudent, at a time of great surplus, to make the best use of U.S. agricultural commodities. However, we cannot just dump the food overseas; it must be programmed in a way to help countries build economic stability and, ultimately, increase purchasing power. This will also develop markets for U.S. agricultural goods.

PVO's and cooperatives have a unique ability to act as intermediaries -- receiving the food aid and taking responsibility for its use in-country for reforestation, agriculture, health care, and other projects. Right now, if a PVO or cooperative tries to get a project approved to sell or barter commodities, there are severe restrictions. For instance, in Mozambique, World Vision wanted to monetize food, selling it in urban and other areas where people had money, but no commodities. Initially, the Administration interagency group would only allow us to directly distribute food to people, not sell it. Yet, if people could afford to buy food, why build dependency? Why add a disincentive for local enterprise?

We wanted to use the proceeds from the commodity sales to complement our work-development programs in Mozambique, aimed at a chronically poor sector. Finally, after months of discussion, we were permitted to proceed and sell up to 30 percent of received commodities. However, our sales program was limited to very few towns.

World Vision has no intention of taking money from those who cannot afford to pay for food. A question our field staff often asks is: Why are the restrictions placed on PVO and cooperative use of food aid much more limiting than the restrictions placed on governments that receive food aid? The U.S. government uses a double standard. On one hand, it permits unmonitored, flexible use of donated commodities by recipient governments. On the other hand, PVO use of commodities is limited and highly regulated.

During the African famine, Americans personally responded to the crisis with an unprecedented outpouring of assistance. Now, the glamour has worn off, but the chronic suffering continues.

As the cash revenues of PVO's are diminishing, the amount of food aid available for Africa is also significantly decreasing. In FY 86, still under the emergency food provisions, World Vision will be using 102,000 metric tons of food in Africa. In FY 87, we are only programmed for 15,000 metric tons of regular developmental food aid.

We could easily continue to use at least 100,000 metric tons. During the emergency, the roots of PVO infrastructure were established in the shallow African soil. Now is the time to make this fragile network take hold. PVO's and cooperatives must be allowed to continue to use food aid in these ailing countries. To abandon that which we have so carefully cultivated, at such great cost, will only deepen the next cycle of famine.

Rather than concentrating on government-to-government giveaways, let PVO's and cooperatives be the intermediaries. In many of these countries the governments do not have the infrastructure or capa-

bilities to transport, process, or distribute food. Nor can they use the proceeds generated from commodity sales in a constructive, developmental manner.

In the wake of the emergency, there is the opportunity for rehabilitation and recovery. PVO's and cooperatives can work in the communities and towns for better health care, small-scale private businesses, and improved farming. If the regulatory restrictions and administrative obstacles on sales and barter were relaxed, we would use more food aid in African and other developing nations. Mr. Chairman, I urge you to let USDA and other members of the Food Aid Subcommittee know that Congress supports greater use of food aid.

The law permits monetization. It is PVO's and cooperatives who can put the money to good use. We have the opportunity to resist the temptation to be penny-wise and dollar-foolish. In so doing, we can build the infrastructure that could save millions of lives.

TESTIMONY BY LAVERN A. FREEH, LAND O'LAKES, INC.
BEFORE THE SENATE AGRICULTURAL COMMITTEE
WASHINGTON, D.C. - TUESDAY, JULY 15, 1986

I. Introduction

My name is Vern Freeh and I'm the Vice President for International Development and Governmental Affairs at Land O'Lakes, Inc. -- a food and agricultural cooperative owned by 325,000 farmers in an eight-state area of the Upper Midwest.

I appreciate the opportunity to testify on behalf of Land O'Lakes and its 325,000 farmer owners, and other agricultural cooperatives in the United States on ways in which the government and the private sector can effectively work together in using our nations' agricultural abundance to alleviate world hunger and develop new trade opportunities.

I speak from a base of involvement which goes back six years when Land O'Lakes first decided to get actively involved in helping developing countries to solve their food and agricultural problems and to improve their economic performance.

We made the decision to get much more involved internationally because we realized that if we were to be successful in the years ahead and wanted to achieve anywhere near our potential in the world economy in which we operate, we needed to position ourselves to better understand and influence international developments, policies and issues, and we needed to become more actively involved in international trade and in development activities.

We felt that if we did what we are capable of doing, we could make a significant contribution to dealing with poverty in the world -- and once that is overcome, peace, prosperity and new market opportunities are bound to follow in its place.

It is our feeling that international development programs, technical assistance and trade policies are far too important to be left to the government alone. The free enterprise system, American business -- including its cooperatives -- were the driving force in the economic development of our nation, and they can and should be a driving force for development internationally.

II. Land O'Lakes' International Goals

We set five goals for ourselves:

- To substantially increase the sale of Land O'Lakes products internationally while maintaining the same quality of products and services in our international efforts as in our domestic efforts.

- To effectively utilize our company's skills and technology for helping people and cooperatives in other counties achieve their goals in a manner and form that is

appropriate to the goals of Land O'Lakes and its members, and in keeping with the needs, goals and situations of the people and nations in which these skills and technology are provided.

- To position ourselves in Washington, D.C. and internationally so we can better understand and influence national and international policies which affect our company and our farmer-members and so we can most effectively work with and through our government in developing solutions to international problems and in developing new markets for our products.

- To develop a presence in various countries of the world to promote economic development and the expansion of Land O'Lakes product sales.

- To develop effective working relationships with American academic institutions, whenever appropriate and mutually beneficial, in carrying out our international development programs. The ultimate objective is to effectively focus and coordinate resources from government, the academic community and Land O'Lakes on specific international development projects.

III. Overview of Some of Land O'Lakes' International Development Efforts

So what and how have we done in our international efforts to help alleviate world hunger? Let me give you five examples:

- In Belize we are working with three American universities, the U.S. Agency for International Development and the Belizian Government to help a farmer group establish a dairy cooperative, build a milk plant, and market their milk. The grand opening for that plant was last weekend. This project will free up money which previously had been used to bring nonfat dry milk from the European Common Market for other purposes.

- In Jamaica we devised a way to use surplus U.S. butter and cheese to finance food and agricultural development.

  The Jamaica project involves the formation of a nonprofit foundation, the Jamaica Agricultural Development Foundation (JADF), which receives PL480 commodities (bulk cheese and butter) and contracts with the lowest bidder in Jamaica to have the bulk commodities processed into value-added products and sold commercially in Jamaican markets. Land O'Lakes provides technical assistance in cheese and butter processing and marketing. The profits generated from the sale for these products (an estimated 35-50 million U.S. dollars over a 10-year period) are used by the JADF to provide financing in the forms of loans, loan guarantees, investments, or grants, for large or small-scale projects designed to increase Jamaican food and agricultural production, improve processing and marketing capabilities

and promote the growth of the Jamaican economy. The goal is to assist Jamaica to become a viable trading partner with the United States. To date, 34 food and agricultural development projects have been approved for funding by the foundation.

- In Ecuador Land O'Lakes is assisting the Ecuardorian private sector to increase the milk supply in Ecuador through the use of donated surplus U.S. standard grade nonfat dry milk which is converted into calf milk replacer and fed to calves -- thereby releasing the milk now being fed to calves for human consumption.

  The overall goal of Land O'Lakes' joint effort with the Ecuadorian private sector is to increase the supply of milk available for human consumption; increase the productivity of the Ecuadorian dairy and beef sector; and develop new and expanded markets in Ecuador for U.S. livestock, feed grains, calf milk replacers and other agricultural products, all of which will be needed as milk and beef production grows.

  - In Guatemala we will be working with the National Cooperative Business Association to increase milk production, raise the incomes of small farmers, improve the nutritional well-being of low-income consumers and help the Government of Guatemala to privatize its dairy industry.

  The funds for this program come from the $5 million which was earmarked in the 1985 Foreign Assistance Act to "replicate Land O'Lakes' efforts in Jamaica and the National Cooperative Business Association's efforts in India and in other countries."

- In addition, Land O'Lakes has been asked by AID to manage the unallocated remainder of these $5 million to:

1. Expand and encourage private sector agribusiness activity, including cooperatives, in less-developed countries, with particular emphasis on dairy production, processing and marketing.

2. Make increased use of surplus U.S. dairy products to support new private sector agricultural development activities and expand U.S. markets.

Our efforts to date have been both gratifying and frustrating. One of the most gratifying experiences was receiving the Presidential World Without Hunger Award from President Reagan in October 1985. This award is given annually to the U.S. corporation doing the most to alleviate world hunger.

IV. Implications/Problems Associated with New Authorities in the 1985 Food Security Act

Generally, the Congress and the governmental agencies with which we have worked have been cooperative and helpful.

New authorities in the 1985 Food Security Act which provide for increased monetization of PL480 commodities as well as the monetization of commodities under Section 416, will help to fund the type of development projects Land O'Lakes, the National Cooperative Business Association and others are undertaking overseas. Unfortunately the funding under Title II of PL480 is currently inadequate to meet the existing and potential needs for such programs and the authorization and guidelines for the barter and sale of commodities under Section 416 have never been issued by the Administration, which still views Section 416 as strictly a non-monetizable dairy projects give-away program even though the Congress, and the Senate Agriculture Committee in particular, authorized the Administration to include 500,000 tons of other commodities in addition to 150,000 tons of dairy products under Section 416, and that commodities handled under Section 416 could be monetized.

Title III of the 1985 Food Security Act which amends Sections 101 and 108 of PL480 by (a) directing that certain amounts of Title I commodities each year shall be sold for local currency, and (b) requiring that such local currency be used, without further appropriations for private enterprise lending in developing countries offers some excellent opportunities to establish the type of lending institution we have established in Jamaica to stimulate food and agricultural development.

Again, however, the Congress, and this committee in particular, will need to monitor the progress of this authorization to make sure that it is implemented and conducted in the manner in which it was intended.

Guidelines are currently being developed for this authorization and cooperatives and private voluntary organizations are concerned that the wording that is being developed is not as proactive as the Congress and the President intended.

V. Future Directions for U.S. Food Aid/Export Initiatives

At Land O'Lakes we believe that our nation needs to look at food aid, development assistance and trade as being part of a highly coordinated continuum. When there's an emergency, when people need food, we need to provide it but with a plan for moving them from food aid to a program of monetizing food aid and providing technical assistance as quickly as possible and always toward the ultimate goals of developing Third world countries into trading partners as quickly as possible.

U.S. food and agricultural cooperatives, agribusiness firms, and private voluntary organizations should be given incentives and greater responsibilities for designing, negotiating and conducting development programs.

One of the ways to provide incentives is by expanding the authority for monetizing products under PL480 and Section 416; by earmarking development funds as in the case of the dairy development funds in the Foreign Assistance Act of 1985; and through such legislation as a Section 108 amendment which provides for countries to pay for a

percentage of their Title I products right away for use by agricultural cooperatives, PVO's and other private sector businesses for private sector development programs.

Those private voluntary organizations, cooperatives and companies that have established a successful record in the use of agricultural commodities to assist countries to enhance their food security and self-sufficiency should be given a larger measure of responsibility and flexibility in the design and implementation of such programs. Project proposals involving PL480/Section 416 products now must go through a long and rather cumbersome review and approval process involving six agencies of government (USDA, AID, State, Commerce, Treasury and OMB). We believe the opportunity exists for streamlining this process without diminishing oversight responsibility.

Mr. Chairman, thank you for the opportunity to testify before your Committee. We commend the members of your Committee for their efforts and stand ready to assist you.

I will be happy to answer any questions you might have.

STATEMENT OF ALFRED M. POLLARD, FIRST VICE PRESIDENT, SECURITY PACIFIC NATIONAL BANK, ON BEHALF OF THE AMERICAN BANKERS ASSOCIATION

I. Introduction

Mr. Chairman, thank you for this opportunity to appear before the Agriculture Subcommittee on Foreign Agricultural Policy in order to assist you in your oversight of the Food Security Act of 1985.

My name is Alfred M. Pollard, First Vice President with Security Pacific Bank. Security Pacific is the 46th largest bank in the world and the seventh largest in the United States. We are third among all United States banks in lending related to agriculture. Additionally, we do business in about seventy countries.

I am appearing today on behalf of the American Bankers Association, which counts among its 14,000 members some 5000 institutions that are by government definition agricultural banks or have significant positions in agricultural lending. These range in size from the bank which lends totally to local farmers for production, real estate and other purposes to the regional bank, lending for a diversity of purposes including export finance, to the large multinational banks with offices around the world.

II. Purpose

My goal today is to review with you Section 108 programs created by the farm bill to provide for local currency lending under P.L. 480. To do this I will preface my remarks with some information regarding bank lending overseas; agricultural lending is very much a part of the overall lending framework. Then I would like to proceed to a review of the program, including some matters we have to bring to your attention.

III. International Lending

A. Business Concerns.

The fundamental characteristic of international lending, along the traditional lines of banks extending credit to borrowers, is one of contraction. Pressed by concerns at home and until recently the high value of the dollar (with little relief since the decline in the exchange rate) and still depressed United States trade, banks are reviewing their international activities and several major banks have gone so far as to announce restructuring of their banking network. One of these is among the top five agricultural lenders and has announced its intention to close many of its overseas branches and to sell its offshore portfolios.

International lending today is marked by enhanced sensitivity to risk, particularly in the developing countries. In some of these nations the only lending transactions involve short term trade finance with strong collateral and, in many cases, government guarantees.

Credit, economic and political risk analyses have made lending officers more sensitive to approaching their credit officers with proposals for new business.

Historically, many P.L. 480 countries have not enjoyed political and economic stability, which are important to lending decisionmakers. In the political risk area alone, one need only read the newspaper to see the volatility in the political situations in Zaire, the Philippines, El Salvador, Somalia, Zimbabwe and Peru. This volatility affects a bank's willingness to do business or operate an office in one of these states.

Still, the American banking community is committed to international finance as critical to our future. There must be a reasonable balance in the risks and rewards of this lending, however. We believe that reasoned approaches to foreign activities are the best guide for action.

B. Government Concerns.

On the issue of congressional and regulatory matters, I would note that apart from issues familiar to you in the agricultural trade area, we face difficulties unique to bankers.

In the 1983 International Lending Supervision Act, new rules were put in place requiring enhanced disclosure of foreign assets, additional reserves for countries determined by the regulators to be in danger of not repaying their loans and calls for higher bank capital. All of these affect the cost of doing business.

Major banks rely on smaller institutions to participate in a great deal of lending. With the recent problems in LDC debt and greater government review, there is increasing reluctance on the part of the smaller institutions to make additional international lending commitments.

We are currently awaiting the resolution of the tax bill conference to determine what changes the tax bill will make that affect foreign lending operations.

Finally, the bank regulators, charged with overseeing bank safety and soundness, often must indicate concern about overseas lending, which may be particularly disturbing to a smaller institution.

My comments to this point have addressed items of concern to us as bankers. Also, I would note that we are aware of the goals of the United States government for economic improvement in the Third World and have strong feelings about the development of these nations as good customers and trading partners for the United States.

Mr. Chairman, I point to these issues not so that they may be resolved, but rather to indicate to you that determining to engage in business overseas is a serious matter, involving many personnel and policy decisions. The job has not gotten any easier.

IV. Section 108

In turning to the new program provided for in the 1985 farm bill, I would be remiss if I failed to begin by complimenting you, the Subcommittee and the Chairman of the full Committee on the creation of the new initiatives contemplated in Sections 106 and 108.

The focus of this hearing is on international food policy and the problem of world hunger. To some degree, this problem may be traced to purchasing power in the LDCs. This in turn stems from a lack of economic growth, historically best generated by private sector capital. Previous programs have failed to emphasize this issue of private capital sufficiently.

Clearly, you have determined to involve the private sector of the United States in an effort to enhance the private sector of developing countries. President Reagan has repeatedly endorsed action to improve "...the climate for private capital flows, particularly private investment." (Statement at Cancun Summit, October 22, 1981; also International Investment Policy Statement, September 9, 1983.) You have taken an important step in that direction.

Section 1111 of the 1985 Farm Bill amended P.L. 480 to authorize commodity sales for payment in local currency and to create two new vehicles for lending the proceeds of the sales.

Of particular interest to banks is Section 108. Section 108 provides for sales of P.L. 480 commodities in local currency and that the proceeds be used for private enterprise lending. These are loans by the United States government to be repaid to the government by financial intermediaries. The purpose, as the conference report stated, is "...to foster and encourage the development of private enterprise institutions and infrastructure as the base for increasing the production of food and related goods and services within the developing country." Conference Report, p. 429.

Loans would be made and repaid in local currency to intermediate financial institutions (IFIs). These IFIs would relend the money for nongovernment projects involving commodities not in competition with U.S. products. A cap of 10% of sales proceeds of Title I commodities is to be channeled to the Section 108 program.

The program is of great interest to us. First, this proposal is very supportive of the Baker initiative, aimed at helping these P.L. 480 countries develop internally, enhancing their private sectors, and freeing up foreign exchange, hopefully for imports of U.S. commodities.

Second, as some of the LDCs have been unstable, we believe that expansion of the private sector, involving more people in the economy, will produce a stabilizing effect.

Third, this is a new initiative and it has been crafted in a deliberate fashion that reflects restraint and a step-by-step approach. No large bureaucracy is to be created nor is a large appropriation being made. Existing funds are being put to better use.

Fourth, I want to compliment the Office of Management and Budget for spearheading an effort to meet with the private sector prior to creating final guidelines. They have had an open door for us and we look forward to continued participation with them to craft a program that has the greatest chance of success.

As you have heard by now, the agencies are developing guidelines that would eventually lead to regulations governing everything mandated in the statute from determining eligible IFIs to loan terms and repayment processes.

I would like to highlight for the Committee some matters that are currently under discussion that may be of interest to you.

At the outset, I cited different types of banks. Only among the largest banks in the nation would one expect to find branches or representative offices in the P.L. 480 countries. We would anticipate the program to be utilized by these banking institutions for the most part. Some banks, without a direct presence overseas, have urged utilization of correspondent indigenous banks. I would note that bank holding companies have other nonbank subsidiaries such as export trading companies, finance companies and the like which I hope regulations would make clear are eligible for IFI status.

Next, there are concerns about doing business in the LDCs. This local currency lending program could very well contribute to LDC stability and LDC capacities as trading partners, which I believe to be strong. We face difficulties in the LDCs, however, not wholly dissimilar to administering lending programs we operate anywhere; by that I mean, we attempt to manage our liabilities and reduce our risk exposure as part of prudent banking practice. Among the tools we use are guarantees, hedging and reserves. Clearly, these activities will be more difficult when dealing with local currencies and each bank will have to address these issues on its own.

The statute provides that loans should not be made to agricultural enterprises that produce commodities in competition with or that may be in competition with U.S. produced commodities. The clear expression of what that means and what commodities are eligible will have a definite impact on the future of the program. Banks would be concerned about the administration of commodity listing and who is charged with monitoring developments in the commodity marketplace.

The law calls for loans to be made to the nonpublic sector. Again, who will make a decision on the eligibility of a borrower and what the criteria are will be of importance to bankers.

Also, Section 108 calls for interest rates to be set based on local rates. Again, clarification is needed as to who will determine these rates and what they will be. The staff has been sensitive to the fact that these loans will be small in amount which means they are labor intensive and returns to the financial institution should reflect the risks and higher administrative and servicing costs.

Bankers feel it is helpful to maintain flexibility in developing lending programs. The current guideline drafts tend to put control over program development and implementation in the hands of the bureaucracy, that is, there appears to be a drift toward greater government control over the actual lending process. We are uncertain if this is in line with statutory intent.

V. Conclusion

The banking community looks forward to continuing to work with the government agencies as they develop this program for implementation. I believe that both the program concept and the approach to its development by the agencies are, on the whole, encouraging. I would be happy to answer any questions you may have.

AUGUST 14, 1986 HEARING

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Mr. Chairman, during the past few weeks the Subcommittee on Foreign Agricultural Policy has compiled substantial documentation on problems and potentials facing U.S. farmers and ranchers in world markets.

First, the United States is rapidly losing its preeminent position in world trade. Agricultural export sales from the United States during this fiscal year are now forecast to be less than $28 billion--more than 10 percent below last year. The agricultural trade balance this year will be less than $8 billion--the smallest trade balance since 1973. In May, for the first time in many years, the United States imported more agricultural products--some $350 million more--than were exported.

While monthly statistics must be interpreted carefully, it is clear than a dangerous trend has begun and must be reversed soon. The overall trade deficit may be in excess of $170 billion this year--a vast total and too much by far without agricultural trade deficits adding to it. Industries such as agriculture that have contributed so much in the past toward offsetting the non-agricultural trade deficit must regain export sales.

The second element from the hearing that this meeting of the full committee could emphasize is the need for long-term commitment. The administration has yet to truly support measures that will allow the United States to continue to be a nation that exports agricultural products. From the subcommittee hearing record, it is clear that, if the United States intends to maintain our presence in the world markets, we must become a more aggressive seller. The United States must be able to offer agricultural aid, concessional sales, and commercial sales. Our customers must find that they can receive terms from the United States that are equal to any in the world.

The third point that one can easily identify in much of the testimony is the need for increased use of our agricultural abundance in food aid programs. The Food for Peace Program can be a powerful tool to help bring a peaceful U.S. presence to famine-ravaged parts of the world. I shared with many of you the shock of learning that, rather than increase shipments under this program, the administration had suspended use of it, in an attempt to redirect funding into Central America. Similarly, the section 416 authorities have been used too sparingly. With storage space at a premium today and prospects for a bumper crop, the lethargic efforts by the administration to expand overseas donations is a mystery.

Mr. Chairman, the final point that is evident from the subcommittee testimony is that technological advances are proceeding more rapidly than the growth in product demand in world markets. In short, regaining and expanding export markets would be an insufficient--albeit necessary--step towards returning prosperity to rural America. Clearly, innovative uses for farm products must be developed if the United States is to continue producing a high volume of farm products in the future. In the 1985 farm bill, Senator Lugar and Senator Glenn added specific authority for a

program to identify and develop new uses for farm products. I commend them for their foresight and hope that such research will be fruitful.

I look forward to reviewing today's testimony.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, as ranking member of the Subcommittee on Foreign Agricultural Policy, I would like to commend our chairman for holding this series of hearings on U.S. Food Aid and World Hunger.

The issue of hunger in our Nation and throughout the world is one of the most important we will face here in the Agriculture Committee. During a time when the United States faces an ever-increasing surplus of grain, it is hard to imagine that there are children in the world who go to bed hungry. It is our responsibility to use our significant resources to see that our world's children have enough to eat.

It is my hope that our witnesses might address themselves to the use of surplus commodities, through current food aid programs, to aid world hunger efforts.

Thank you, Mr. Chairman.

STATEMENT OF HON. MITCH McCONNELL, A U.S. SENATOR FROM KENTUCKY

Mr. Chairman: I will preface my statement by commending the distinguished Senator for conducting this series of hearings. We as a nation are the single largest supplier of development assistance and emergency food relief in the world, and it is important that we examine and evaluate the direction and focus of our efforts from time to time. To that end, these hearings are of great benefit.

It might be well to begin by asking where we stand in terms of addressing the problems of world hunger. Last year, during the much publicized famine which ravaged the Sahel, as well as Eastern and Southern sections of Africa, the inhabitants of 20 countries suffered from severe malnutrition. In answer to their cry for help, food aid was mobilized from around the world, including approximately 3 million metric tons worth nearly 1 billion dollars from the United States. Today in Africa there are only 6 countries which come under this classification. Still, 18 million people are experiencing severe hunger in Sudan, Ethiopia, Angola, Mozambique, Botswana, and Cape Verde.

Elsewhere around the world, chronic malnutrition is widespread. Even among plenty, hunger exists. In India there are 200 million people who fall into the category of chronically malnourished--this figure is staggering, especially in light of the fact that this country is a net exporter of feed grains. In Indonesia, 33 million people are seriously affected by hunger. In Bangladesh, 27 million are malnourished, 75 percent of the population. In Nigeria, 14 million. In Brazil, 12 million. In Pakistan, 12

million. In the Phillipines, 10 million. The list is much longer, and the magnitude of human suffering is lost in statistics.

But I think that we can take some measure of reassurance in the fact that we are doing something. I listened with great interest to several of the witnesses at the first hearing of this series as they sketched a brief picture of what we are doing to reach out to those in the world in need. Through the Food for Peace and section 416 programs, through the auspices of the United Nations, through private voluntary organizations such as Catholic Relief Services, CARE, World Vision, Save the Children, and Lutheran World Relief to name few of the many, we are working to fight famine and malnutrition in the short-run and speed the nations of the Third World towards economic development in the long run.

Our domestic agricultural system is an overwhelming paradox--we have the most efficient and productive farmers in the world, yet they are experiencing the worst financial crisis since the Depression. One of the obstacles to progress is the surplus commodities which fill our storage facilities. I do not think that food aid is a panacea for our farm problems, but it is a direction which we can pursue in which everyone benefits.

The problems we face around the world in fighting hunger and responding to emergency food needs are truly staggering. The needs of the Third World are complex and, except in extreme emergencies, merely throwing food at them is not always the best solution. Our short term efforts must keep the needs of long term development clearly in view. Perhaps the best way to deal with emergency situations and chronic hunger is to prevent them (to the extent possible) by encouraging the development of a stable, indigenous agriculture and the associated transportation, marketing, and financial infrastructure necessary for growth.

But this is easier said than done, and until this development takes place we must rely on the efforts of AID, of the UN, of the many PVO's and the generosity of other countries to alleviate famine conditions where they occur. Again, I commend the distinguished chairman of this subcommittee for holding this hearing and look forward to the testimony of the witnesses called before us.

STATEMENT OF JULIA CHANG BLOCH, ASSISTANT ADMINISTRATOR, BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman, members of the committee, thank you for this opportunity to address our mutual concerns on the issue of world hunger. As you know, ending world hunger is not simply a feeding problem with a food aid solution--I will touch on the broader issues in my remarks to follow--but as the person responsible for administering the U.S. Government's international food aid program and because of your interest as members of the Agriculture Committee, I will focus my remarks primarily on the role American food assistance can play in the overall world hunger equation.

You are already aware of the immediate impact food aid--particularly the PL 480 program--can have in meeting emergency, humanitarian relief needs. During the African famine of 1985/86, the US Government approved for shipment to Africa more than 4.7. million

metric tons of food aid, valued at $1.6 billion. Of that, 2.4 million metric tons were dedicated to African emergency relief.

In Africa, this effort was particularly impressive because it was all accomplished in spite of the continent's limited physical infrastructure and the weak administrative capacities of the countries needing help. We had to undertake some of the responsibility for overcoming the attendant problems. Joining us in this effort, we had the invaluable assistance of American voluntary agencies--including CARE, Catholic Relief Services, the Adventist Development and Relief Agency, Save the Children Federation and World Vision Relief Organization.

These voluntary agencies lent their organizational skills and administrative staffs to the demanding challenge of coping, in a single year, with the problems that have held back the development of African countries for decades:

-- ports unable to unload ships on schedule;
-- food on the docks that does not get moved to warehouses in a timely manner;
-- insufficient trucks available to move food to distribution points in rural areas;
-- railroads that, where they exist, run irregularly due to poor facilities and bad administration;
-- petroleum products constantly in short supply; and
-- all too frequently, insurrections and political instability that undermines relief efforts. And through it all, the U.S. Government stood by its policy that "a hungry child knows no politics," providing emergency feeding relief to all famine victims, regardless of the political regimes they may be forced to live under.

This year, we have gone from a relief mode toward using food aid and other assistance mechanisms to carry out programs for the rehabilitation and reconstruction of the physical and human damage that has been wrought by the famine. Farms are being brought back into production, and the health and well-being of the population are being restored to previous levels, and hopefully, improved.

We are now facing the most important challenge of all--the challenge of finding ways for avoiding a re-occurrence of this calamity. Provisions for food security must be developed. Adequate in-country storage will have to be built. Systems for estimating and anticipating food production and shortages will have to be institutionalized. Transportation systems will have to be established and adequately maintained. And market incentives will have to be allowed to work to improve productive activity, particularly in rural areas. In short, new policy frameworks that promote agricultural growth over the longer term need to be adopted.

Just as food aid has been indispensible to the immediate relief effort, we are convinced that U.S. food aid can make a major contribution to the success of this longer-term effort.

Food Aid Programs Today

Success on this dimension will lie in finding ways for food aid to address the root causes of food shortages.

That's why the Food for Peace program makes a conscious effort to link much of its assistance to an overall development strategy in recipient countries. It uses food as a tool to help generate food self-reliance in the developing world. And it carefully

crafts its programs to avoid creating dependencies on outside donations or disincentives to local food production.

In this regard, I would emphasize the particular need for donors to ensure that large quantities of food aid do not have an unintended negative impact on the recipient country's own capability to feed itself. For example, dumping food aid into depressed economies may relieve hunger in the short run, but it won't eliminate the causes of hunger. It may, in fact, aggravate the problem. As President Reagan has said, "That kind of foreign aid is nothing more than welfare payments on a global scale, and just as ineffectual and degrading."

We've learned a good deal in recent years about ways in which food aid can effectively support the longer-term development process. Donations of agricultural commodities through food aid programs can help to stimulate agricultural development in areas where a recipient country has a comparative advantage.

India is one such example. In the decade from 1965 to 1975, food grain production more than doubled. In spite of a high rate of population growth, India went from a chronic deficit to a position of self-reliance with actual surpluses this year, and even to becoming a food aid donor to needy African nations. P.L. 480 provided AID an entree for policy dialogue with the Indian agricultural system in the early sixties, by providing a food safety net while India implemented reforms.

Another way P.L. 480 can help developing countries feed themselves is through use of local currencies generated by the sale of P.L. 480 commodities. These proceeds are used for all kinds of development projects: credit for small farmers; food storage and distribution systems; and reforestation programs. Again, successful local currency-financed development programs will have the long-term impact of stimulating growth which may eventually move a recipient country into world markets.

Where foreign exchange is concerned, P.L. 480 commodities also help strengthen national economies by enabling developing countries to avoid damaging balance-of-payments deficits that are caused by importing foods they cannot afford. This frees up funds which can then be spent for improvements in the rural economy, thus helping to foster food self-reliance.

Although many of the world's poor still face hunger and malnutrition, developing countries as a group have nearly doubled their food production since 1965, thanks in part to U.S.-supported agricultural programs and research.

The U.S. has benefited in a very direct way from this developmental progress. At the same time that developing countries have more than tripled per capita incomes, they have increased fivefold their agricultural imports from the U.S. economic development, and the urbanization that often goes hand-in-hand with it, in turn creates markets for our agricultural exports. At this time, two-fifths of all U.S. agricultural exports go to developing country customers. Most of these exports go to countries that have achieved real progress in their own domestic agricultural programs. South Korea and Colombia are among the notable examples of countries that have improved their domestic agricultural production and rate of economic growth while also becoming agricultural importers.

Meeting the Immediate Hunger Challenges

I was told this committee wanted, in the most basic sense, the answer to the question, "Where and when is the next Ethiopian crisis going to occur?" and, of course, "What are we going to do about it?" I cannot answer the first part of that question. An emergency is, by definition, unpredictable. I cannot tell you which country will be the next Ethiopia, but I can tell you under what conditions such a calamity is likely to occur. And, I am glad to tell you what the Agency for International Development is doing to monitor those conditions and hopefully, stave off the next Ethiopian-style crisis.

Given the unpredictability and great variety of factors affecting food production, it is not possible to predict with certainty where the next food emergency will occur. We can, and do, monitor the types of conditions which accentuate the susceptibility to famine. These include unusual agro-climatic conditions, population shifts, abnormal livestock sales, and erratic food prices in the marketplace. Government policies and domestic stability are critical, as are the country's transportation and marketing infrastructures.

A.I.D. uses it field staff to collect, measure, monitor and evaluate these conditions. Although not an easy task, such monitoring is necessary because mere global figures on hunger tend to confuse rather than elucidate. International estimates are that 1 in 10 of the world's population--450 million people--are severely undernourished. Up to 20 million people die every year of hunger-related illnesses; and of these, 15 million are children under the age of 5. These are dramatic and terrible numbers. Yet they actually tell us little about the problem, about where or how to respond to it. Many of the men, women and children represented in these statistics live in countries which do not--in the aggregate--suffer from food deficits. Or in some countries, food production clearly is inadequate to meet domestic demand, but the country's financial capacity to commercially import food may obviate any generalized need for donated or cconcessional food aid.

Because useable food needs information can be so variable--if not actually contradictory--it can become the focus of considerable controversy and confusion. Methodological and presentational differences account for much of the difficulty. Therefore, at A.I.D. we have taken the initiative to develop and publicize a basic field manual, available in both French and English, for estimating food deficits. It has been field tested, shared with other donor organizations, and can now be used in conjunction with a computer program that is compatible with the most popular and now ubiquitous personal computers.

What does all of this say about where the next Ethiopia will occur? While sudden shifts in any of the aforementioned conditions could generate a food emergency anywhere in the world, I'm sure no one is surprised by the assumption that Africa will remain a major focus of our emergency food efforts in the foreseeable future.

Africa's demand for food has increased dramatically, and in recent years it has become the main recipient region of food aid. Population increases continue to outstrip food production increases. Per capita food production has declined in Africa. The

region's share in donor food aid programs has risen steadily, absorbing more than half of the world food aid by the early 1980's. The trend is unlikely to change overnight. At the same time we are monitoring a potentially serious grasshopper and locust threat in Africa which could damage crops in the field and build over a period of months or years to proportions rivalling the disastrous locust outbreaks which occurred between 1930 and 1945.

Yet, the rains were good last year. Many countries in Africa started this crop year with healthy food stocks in reserve. USDA estimates of additional cereal needs to meet normal food consumption needs in Sub-Saharan Africa dropped 39 percent this year--to 2,553,000 metric tons in 1986/87, from their previous year's estimate of 4,216,000 metric tons.

Meeting the Long-Term Hunger Challenges

This is how we are monitoring the situation; now to tell you briefly what A.I.D. is doing to respond to the problems of world hunger. Broadly speaking--and recognizing the very real differences in setting--the successful Asian food experience such as cited above in the examples of India, South Korea and Colombia, support the development directions A.I.D. is pursuing to meet growing food problems in Africa. For example, we have learned:

1. The key to increasing food and agricultural production lies in establishing attractive, comprehensive production and marketing incentives including: adequate producer prices; marketing, transportation and communications infrastructure; accessible production inputs and credit; and effective research and extension.
2. Investments in agricultural research underpinned the "green revolution" in Asia. Research in Africa is being directed to drought-resistant food crops to achieve a similar payoff.
3. Equally important is a strong government commitment to adopt appropriate market-oriented policies and private sector development.

It is clear in any event that the solutions to Africa's food production problem will take a long time to develop. Most of the agricultural production area of Africa is a fragile environment, vulnerable to deforestation, desertification, and loss of soil fertility. Africa's transportation and marketing infrastructures are, in most areas, inadequate to support the volume of inputs necessary for modern agriculture based on yield-increasing biotechnologies. Agricultural research is still in the process of working out appropriate solutions to African production problems. And, as we heard at the U.N. special session on Africa last May, many African governments are only now beginning to recognize the need to adopt and implement production-oriented agricultural policies which support the farmer with market-oriented programs.

While these are all problems that we in A.I.D. are working on, we do not see any short term solutions. Africa, particularly sub-Saharan Africa, will remain vulnerable to severe food shortages for the foreseeable future, as long as the chronic domestic instability which affects so many African countries continues.

Meeting the Long-Term Challenges Through Development

The question of how best to help Africa--or any of the world's hungry for that matter--is only partially answered through food donation programs. As President Reagan has said, "Increasing food production in developing countries is critically important; for

some, literally a matter of life or death. It is also an indispensible basis for overall improvement." We at A.I.D. work closely with all concerned groups to meet this challenge and support African recovery and development. Some priorities include:

-- First, agricultural research must produce crop varieties appropriate for African production; varieties which have to rely primarily on rain-fed agriculture. A.I.D's current agricultural research portfolio dedicates $350 million to help speed the process of developing appropriate crop varieties for the particular circumstances of Africa.

-- Second, preserving and increasing soil fertility, along with the maintenance of ground water, are essential for the development of Africa. With geographic information systems, A.I.D. has begun to identify those areas with appropriate soil characteristics and water availability for investment in environmental preservation. In the food aid program we have established program mechanisms, including Food for Work and local currency programs, which can be used for afforestation and the construction of dams and terracing to improve the environment. With proper use of such development programs, we should be able to slow, stop and maybe reverse the loss of productive land that is now taking place.

-- Third, progress and development depend on healthy, productive people. Hungry, sick, undeducated and untrained people are not fully equipped to actively participate in democratic processes or support the technological advances needed to build modern nation states. In its thirty-two years, U.S. food aid has provided major investments in human resource development through its maternal and child health and school feeding programs. And A.I.D. is adding to this a particular emphasis on child survival and training programs in Africa.

-- And fourth, overall developmental policies must be reformed. The policy and social environment in each African country is different, offering different incentives for increased agricultural production. The challenge is not just to understand these forces, but to understand them in a manner that enables us to help recipient governments provide for increased incentives to farmers.

-- Finally, the U.S. understands that the strength of our economy depends on the vital forces of private enterprise. Many developing countries, including those in Africa, have opted for government control of their economies, often to the detriment of the private sector and the economic growth that could flow from it. As was evident at the U.N. Special Session on Africa that I mentioned before, this is changing. Many African nations are now realizing the advantages of a strong private sector, and the U.S. government stands ready to support policies aimed at creating an environment in which the private sector can flourish, bringing with it productive employment and economic growth.

Fortunately, Congress--this Committee in particular--has given us important tools for use in encouraging private sector-led reform of the agricultural sector in these developing countries, such as the Food for Progress and local currency lending provision. During my last appearance before this subcommittee in June, I expressed a hope that we could continue the very fruitful dialogue which A.I.D. and this Committee have had, particularly since

the passage of the Food Security Act of 1985. Therefore, I look forward to opportunities, such as this morning's session, to provide the Committee with progress reports on our efforts to implement various initiatives in the trade title of the Farm Bill.

In this regard, I am pleased to inform you that negotiations of our first Food for Progress agreements--with Madagascar and Guinea--are nearly complete. We expect to begin the movement of approximately 60,000 metric tons of Section 416 commodities in a matter of weeks. More importantly, we are looking to the future, and we hope to begin discussions on the FY87 program shortly. I know this Committee has repeatedly expressed concern that the interagency decision-making process seems like an awkward procedure. The Food for Progress program, I think, is a recent example of this procedure working quite smoothly and effectively.

Further, the local currency lending program--Section 1111 of the farm bill of the 106/108 program as some prefer to call it--is also moving along quite well. We have agreed within the interagency group on the basic implementation procedures. Final details on the guidance to our field missions are being ironed out--we expect to send these instruction out within a few days.

Closing Remarks

These new initiatives are particularly exciting, for through them the bounty of the American farmer can go beyond mere emergency relief feeding programs, and begin to attack the root causes of hunger and starvation. As A.I.D. Administrator Peter McPherson has said, "Hunger will not be eradicated by agricultural solutions alone. Hunger cannot be solved by charity. The permanent salvation of the hungry is not the feeding of individuals, but the economic growth of nations."

Hunger is, indeed, more than a relief issue; it is, in fact, a development issue. I commend this Committee for taking a longer term perspective on the problem of world hunger, for continuing to take an interest long after the images of starving children have vanished from the nightly newscasts, and particularly for providing us with the tools to combat the root causes, and not just to treat the symptoms, of the disease.

Thank you very much.

STATEMENT BY MELVIN E. SIMS, GENERAL SALES MANAGER, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, members of the subcommittee, I appreciate the opportunity to discuss with you how the U.S. Department of Agriculture is working to promote greater world food security.

Food security is a matter of urgent concern for poor people and poor nations. At the global level, world food production in recent years has generally been more than adequate to meet world consumption needs--the problem has been primarily one of food distribution. Countries and individuals that lack purchasing power cannot buy the food they need, even when supplies are abundant. When supplies are inadequate, the poor generally suffer first and hardest.

As a leader in agricultural production, the United States has long recognized its responsibility to help end world hunger. The United States is the world's largest food donor. In the past 30

years, we have provided some $35 billion in food assistance to developing countries--more than all other nations combined--and we stand ready to provide continued food aid in the future.

However, we recognize that in the long run, increased food security for the world depends not on the assistance the United States provides, but rather on patterns of economic development, both within and across nations. Countries stand to gain most from pursuing self-reliance strategies in a global environment which provide both well-functioning international food markets, and opportunities for trade growth between developed and developing countries.

Trade gains will not, in and of themselves, increase the purchasing power for poorer people within countries. However, national development strategies which are narrowly based, and have the effect of excluding significant portions of the populations from employment and earned income will perpetuate undernutrition, even with substantial growth in national income, trade and food availability. Food security at the household and national level depends ultimately on widely shared economic growth. Our food assistance efforts increasingly reflect that fact.

The cornerstone of the U.S. food aid program is Public Law 480 or the Food for Peace program. In the more than 30 years this law has been in existence, it has enabled the United States to meet both the emergency and short-term needs of hungry people around the world as well as to foster the kind of long-term economic development that is essential to true food security. Since 1954, the United States has distributed over $35 billion worth of farm products to over 100 countries through the P.L. 480 program.

Emergency Aid Programs

The donation program under Title II of P.L. 480 is one of the tools most frequently used to relieve emergency food requirements arising from natural disasters such as droughts or floods. A large portion of Title II food assistance moves through U.S. private voluntary organizations.

The fiscal 1986 Title II budget is set at $754 million which will provide approximately 2.5 million metric tons (on a grain equivalent basis) of food donations.

We also have two other programs through which we can provide emergency food aid to other countries should it be needed.

Section 416 of the Agricultural Act of 1949, as amended by the Food Security Act of 1985, permits us to donate virtually any commodity held in stock by the Commodity Credit Corporation. While there are some restrictions imposed on the donation of these products, this amendment greatly broadens the range of commodities available for short-term food assistance. The amendments made by the Food Security Act of 1985 also broaden the Secretary's authority to allow cooperating sponsors to sell the donated commodities and use the proceeds to support both distribution and certain economic development activities.

In addition, we also have available 4 million tons of wheat in the Food Security Wheat Reserve for emergency food assistance overseas. This reserve assures the availability of wheat for the P.L. 480 program even when domestic supplies of wheat are extremely limited. We are permitted to use up to 300,000 tons of reserve wheat in any fiscal year, without regard to the domestic supply situation, to provide urgent humanitarian relief to any developing country suffering a major disaster when the wheat could not other-

wise be made available in a timely manner. Wheat from the reserve was used in 1985 to help meet the African famine needs, but the quantity used has been replenished and is available again if needed.

Long-Term Development Needs

In recognition that the ultimate solution to the world's food program lies not in short-term food aid but in long-term economic development, we are concentrating the bulk of our food assistance on programs which spur productivity and improve the infrastructure needed to move agricultural products efficiently in developing countries abroad.

The P.L. 480 concessional credit sales programs under Titles I and III are the two tools we use most frequently in accomplishing these goals. Over the past 30 years, they have proven effective in promoting economic development abroad as well as in creating commercial markets for U.S. farm products.

For fiscal 1986, the funding for Title I/III programs is almost $900 million, which should provide long-term concessional financing for approximately 5.6 million metric tons of agricultural commodity exports.

To further encourage economic development overseas, the Food Security Act of 1985 also established two new assistance programs--Food for Progress and the local currency sales initiative in Title I, P.L. 480.

Under the "Food for Progress" program, U.S. agricultural commodities will be provided to developing countries that will work to implement agricultural policies based on the principles of free enterprise, thereby promoting the role of the private sector in production and distribution. Commodities provided under the program would be in addition to any assistance a country normally receives from the United States. . Commodities may be made available for use in this program under the authority of either Section 416(b) of the Agricultural Act of 1949 or Title I of P.L. 480. Negotiations are underway for two Food for Progress agreements, and we expect these agreements to be signed shortly.

The Local Currency Sales Initiative is a new, innovative effort under the authority of Title I, P.L. 480 aimed at generating economic growth through aiding the private sector in foreign countries. The local currencies accruing to the account of the U.S. Government as a result of sales of commodities can be loaned to financial intermediaries in Title I countries, who would then lend these currencies to local private entities, primarily in the agricultural sector. The procedures for this new program are being developed and the program may be underway by early fiscal 1987, if not later this fiscal year.

The Food Security Act of 1985 also included specific funding levels for the Farmer-to-Farmer program authorized by Section 460 of Public Law 480. That program has been administered on a pilot basis through the Agency for International Development in cooperation with Volunteer in Overseas Cooperative Assistance, but is now expected to be expanded. The program finances the overseas expenses of volunteers to give rural communities and cooperatives managerial advice in all areas of farming and rural life. The volunteers furnish their time and advice without compensation, but the program covers their travel and living expenses.

Technical Assistance and Training

A large share of the populations in low-income developing countries earn their living from agriculture. As a consequence, our efforts towards world food security include a number of technical assistance and training programs aimed at agricultural and economic development in the developing world.

The Office of International Cooperation and Development within USDA has the responsibility for managing these programs, which reflect a wide range of disciplines and subject areas. In 1985, for example, OICD's technical assistance and training projects included animal and plant disease control and suppression, soil and water technology, livestock and crop production, management of public forests and rangelands, agricultural information and marketing services, economic analyses and forecasting services, and agricultural reference services.

This year, along with its other projects, OICD is working closely with the Agency for International Development here and in Africa to assess the extent of the locust/grasshopper problem and to mobilize resources to address the problem. Two teams of USDA entomologists are en route to Africa to evaluate and update information on the extent of the infestations and control measures, to evaluate the resources available to cope with the problems and to conduct on-the job training as needed.

Projecting World Food Needs

Much progress has been made in the last few years improving the U.S. government's ability to assess changes in the world's food situation. The catalyst for this improvement has been the Interagency Food Aid Needs Working Group, established by the National Security Council in response to President Reagan's proclamation in observance of the 30th anniversary of Public Law 480.

This interagency working group, chaired by a representative from the U.S. Department of Agriculture's Economic Research Service, involves agencies throughout the Federal Government. Its objective is to draw upon existing capabilities in the various Federal agencies to improve our early warning capability for detecting trouble spots in the world food situation. It also provides us with a coordinated process for producing a single official estimate of the food needs of the world's nations in excess of their production or commercial import capacity.

Although the Interagency Working Group is not yet 2 years old, and formal agency and staff working relationships are still evolving, its efforts have already produced more objective and timely crop and food needs estimates. This progress has been made possible by the coordination of the substantial capabilities within agencies.

Improved early warning and assessment did not require additional resources, but rather the integration of existing units in pursuit of a common goal. For example, we have improved the lines of communications between USDA, the Agency for International Development, and the Department of State, and we have made a start made on standardization of data reporting. Another achievement is improved dissemination of reporting on weather, food crop conditions, and emergency situations.

The greatest emphasis in our foresight program, especially in terms of published forecasts, is on the relatively short-term view of 1-2 years. These short-term forecasts are updated periodically and can, therefore, be adjusted to take account of changing condi-

tions. It is in these short-term forecasts that continuous monitoring of weather, crop conditions, and economic conditions in the world is most crucial to accurate forecasts of world production, and consequently, trade and food aid needs.

Our assessments of short-term world food needs are published annually in a report entitled World Food Needs and Availabilities. This report serves both the requirement of amended Public Law 480, that global assessments of food production and needs be submitted to the U.S. Congress, and the food needs analysis function of the Interagency Food Aid Analysis Working Group.

The current report provides the Executive Branch and Congress with information to support tentative food aid budget allocations for the fiscal years 1987 and 1988. Quarterly updates, done since the autumn of 1985, also provide detailed updates on food supplies and additional food needs on both a country-by-country and a world basis. In the report we present two alternative measures of the overall (commercial plus concessional) food import requirements and the additional food needs of 69 countries--status quo and nutrition-based. We also try to assess the maximum quantities of food imports a country can physically absorb. This information can be critical in countries with food crises or countries trying to advance the nutritional status of their population.

Through the technical assistance and training efforts described earlier, we are also helping other nations improve their own data collection and analysis processes. This will assist them with their long-range forecasting and planning activities, thus leading to greater food security. In Egypt, for example, USDA economists, statisticians and computer experts are working with their counterparts in the Egyptian Ministry of Agriculture to help them obtain more timely and accurate statistics and analysis about the performance of the Egyptian agricultural sector.

Conclusion

The Administration is committed to promoting greater food security around the world. We stand ready to provide short-term food relief when emergencies occur. However, we recognize that in the long term, the world's food security rests on achieving greater productivity in the developing world. as a consequence, we are giving developmental assistance priority in our food aid programs.

That concludes my statement Mr. Chairman. I will be happy to answer any questions you or the subcommittee members might have.

STATEMENT OF RUDY VON BERNUTH, DEPUTY DIRECTOR, PROGRAM DEPARTMENT, CARE

My name is Rudy Von Bernuth, and I am the Deputy Director of CARE's Program Department. I appreciate this opportunity to appear before you today to testify on the topic of humanitarian relief in threatened areas. In preparing for these hearings I was asked by the Chairman to reflect on three concerns: the causes of world hunger, its prevention, and the effectiveness of our response.

Let me begin by noting the extraordinary dimensions of this problem. There are more chronically hungry and malnourished in

the world today than ten years ago, and many experts expect these numbers will increase before they diminish.

As for the principle causes, I believe the evidence is clear. Of all the interrelated factors in the complex etiology of chronic hunger and malnutrition, the strongest correlate is poverty. Simply put, were we to eliminate poverty, we would also eliminate the worst manifestations of malnutrition and chronic hunger. Access to food is generally a more complex and serious problem than availability, which helps explain, for example, why half of the malnourished people in the world (estimated at 200 million) still live in India even though India has reported recent food "surpluses".

This anti-poverty focus carries valuable strategic implications. Rural infrastructures must be developed and income levels raised, since it is in rural areas where the majority of the world's chronically hungry and malnourished reside. Improved agricultural productivity offers an excellent means of raising rural incomes and creating new and secondary employment opportunities. In this regard, development assistance and appropriate economic incentives are of obvious value, but targeted food assistance through projects such as CARE's food-for-work road building program in Bangladesh (a country where the World Bank estimates 90% of the population lives in absolute poverty) can also create rural income and new employment opportunities as it simultaneously helps develop rural infrastructures.

CARE's food for work program in Bangladesh works well for several reasons: (1) the costs for inland distribution of food are reasonable and well below the receivable value of the food aid; (2) there are large numbers of unemployed in rural areas where our food-for-work projects are being implemented; and (3) the food aid is linked with a Government of Bangladesh policy of encouraging domestic production with fair producer prices. Unfortunately these factors are often missing in Africa.

Going beyond the poverty focus, we also know there are many instances where food is available and accessible, but still we find chronic hunger and malnutrition. This is particularly true among low income groups, pregnant and nursing mothers, infants and preschoolers - all of whom have special nutrient needs. It is this target of poor, nutritionally at-risk individuals that CARE's nonemergency food aid programs (apart from food-for-work and school feeding) strive to reach. To have a lasting effect the food use must be linked with nutrition education, training, and health and child survival components such as immunizations, oral rehydration, and breast feeding promotion designed to break the downward spiral of diarrheal infection and malnutrition.

CARE's food aid program in India which supports the Government of India's "Integrated Child Development Services" is an excellent example of a such project. This program is effective largely because CARE's food assistance is not an end in itself but rather one more resource (albeit a critical component) supporting the Government's overall goal of improving the nutritional and health status of children under six through greater community involvement. In this context, U.S. food assistance makes excellent sense. Nowhere else in the world could we so significantly contribute to improving the health and development of so many of the world's children at so little cost. Conversely, however, where there is not an adequate commitment of financial and manage-

rial resources, nor a delivery system that permits cost-effective food distribution, food aided child survival projects are less effective.

This, of course, leads us to the consideration of problems in using food aid in Africa. As you know, Sub-Saharan Africa is certainly the most threatened continent. The region has had a decade of declining per capita agricultural production and declining per capita consumption. This was followed by last year's devastating drought claiming millions of lives, and most recently by a widespread hatching and breeding of locusts and grasshoppers across a continent lacking the pesticides, equipment, vehicles and spare parts to cope. Moreover, there are still some serious shortfalls in food pledges, although the more generic problem is the shortage of funds for internal transport and distribution coupled with the lack of infrastructure - particularly in land-locked Sahelian countries.

I believe that CARE's African-wide emergency food aid programs last year were extraordinarily effective in preventing loss of life and diminishing mass migrations to urban areas (Indeed CARE received the President's World Without Hunger Award last year for this effort). But food aid has been less effective in preventing future food crises.

In the Sudan, where our emergency food program reached 1.5 million people last year (all distribution will end in October), there was some strengthening of the food storage, inventory control and general ration distribution skills at the village council level, and a Food Aid Unit will be established in the Ministry of Planning with CARE's technical and financial assistance to monitor nutritional status. Similarly, emergency food-for-work projects in Chad have had the secondary effect of increasing agricultural production through irrigation schemes which will benefit subsistence farmers in drought-prone regions. In Mali, a follow-on project to free food distribution is utilizing food-for-work to reconstruct water catchments, canals and wells. And in Niger where there are still approximately a half million drought affected people and the 1986 crop appears seriously threatened by locusts. CARE's food assistance will be extended an additional year and will leave in its wake a cadre of trained women able to work in food distribution centers and manage supplementary feeding programs.

Nevertheless, apart from emergency situations where food is quite correctly seen as the end in itself, CARE has often found that the financial and managerial costs related to handling food in Africa can exceed the benefits gained from using the food in a traditional manner as a resource for development. Internal logistics costs (storage and transport) are generally very high in Africa due largely to poor road systems and the need to provide warehousing or rent warehousing from the private sector, and the problem is compounded by the inability of the debt strapped host government to help cover these costs. Accordingly, further expansion of CARE's nonemergency food programming in Africa will likely require innovative and cost-effective food project models that complement sound agricultural policies, considerable scope for local currency support, and additional cost-sharing AID grants.

CARE Kenya, for example, has submitted a proposal to utilize food as a resource in support of a Food Security Storage Project which is foreseen to have the potential for evolving into a rural

credit scheme. CARE, however, does not have the funds to complete project design, nor to finance project implementation, including the operational research component to be undertaken by the International Food Policy Research Institute.

We believe recent amendments to the Food Security Act of 1985 permitting local currency sale of Title II and Section 416 commodities, and provisions encouraging AID to negotiate multi-year program agreements with our organizations will help us find the solutions to some of these problems.

Mr. Chairman, I know the Senate Agriculture Committee has oversight responsibility for our PL 480 and Section 416 programs, and I have therefore emphasized food use issues in my statement. Nevertheless, as a member of the Senate Foreign Relations Committee, I know you fully appreciate the importance of our bilateral and multilateral development assistance activities as well. Apart from the value of food during emergencies, I know well managed food aid projects can aid our development efforts, particularly in the areas of child survival, education, and rural development.

STATEMENT OF MARTIN M. McLAUGHLIN, STAFF ASSOCIATE, INTERFAITH ACTION FOR ECONOMIC JUSTICE

Thank you for the opportunity to offer some comments at this hearing on world hunger. My name is Martin McLaughlin. I am a staff associate at Interfaith Action for Economic Justice, a coalition of religious denominations and agencies concerned with issues of poverty and hunger. Since our beginning about a dozen years ago, the problem of world hunger has been one of our top priorities. We approach this and other issues from a religious, ethical, and moral point of view; that is, we try to apply those norms to the situations we observe and then advocate actions reflecting our judgment.

I am informed that you wish to focus on four questions: 1) How effective are the humanitarian relief programs? 2) What can we expect from them in future famine situations? 3) What are the causes of world hunger? and 4) What can we do to stop it?

Because the agency I work for is an advocacy group rather than an operating agency--i.e., it engages in education and information but does not undertake relief of development projects--I believe it is more appropriate for me to focus on your third and fourth questions, leaving the assessment of past and future operating programs to the representatives of the agencies that conduct them.

These remarks are addressed not to the problem of famine--the dramatic event that captures the attention of the media--but to the chronic malnutrition that invisibly but daily affects about half a billion people, one tenth of the human race. That is the real problem--indeed, the scandal--of hunger in the midst of abundant food.

The basic point, in my view, is that hunger is caused by poverty and that poverty is caused by powerlessness: people are hungry because they are poor, and they are poor because they don't have the power to choose otherwise.

But the question raised deserves a more technical and detailed answer than that. One can discuss the causes of hunger or, perhaps more accurately, the factors that bear on that condition, in

terms of both the supply side and the demand side of the economic equation.

On the supply side we have the following considerations, in a very brief summary:

1. Land, which is a basic requirement for growing food, is in relatively short supply--rougly one cultivated acre per person in the world. It is extremely costly to bring more land into cultivation, and cultivated land is being lost to erosion, pollution, and nonagricultural uses at an increasing and alarming rate.
2. Water is even more fundamental. You can grow food without land but not without water; the three per cent of the world's water that is fresh and therefore usable for food production is becoming increasingly polluted, and the hydrological cycle that make it available is being damaged. Water is less widely distributed than land, and deserts are spreading; rainfall is unpredictable, and irrigation is expensive.
3. Energy, even with the decline in oil prices, is hard on the budgets of the poor countries of the Third World, where most of the chronic hunger is located. Chemical fertilizers are petroleum-based and also costly; oil is needed for tractors and other modern equipment, and natural gas is needed for drying, refrigeration, etc.
4. The technology to increase food production--which we in the US take more or less for granted--is often not available in the food-deficit countries or is inappropriate to their stage of growth. Moreover, modern technology often has unplanned side effects and unexpected social costs, especially in the poorest countries (as in sub-Saharan Africa) and especially for the women who do most of the work in the food system but rarely benefit from modernization.
5. Research is a critical ingredient in improving food systems, but 90 percent of it is devoted to temperate-zone agriculture (our agriculture, that is), whereas the hungry people are in the humid or arid tropics and are also victims of endemic diseases generally unknown to and therefore unresearched by us--sleeping sickness (trypanosomiasis), liver flukes (schistosomiasis), river blindness (onchercerciasis)--that are debilitating without being necessarily fatal.
6. Finally, weather is a factor in food production that we can neither predict nor control. However, in the abundantly producing, relatively rich industrialized countries we are able to offset the weather factor much more effectively than the poor countries in the famine zones can.

Essentially, these are factors primarily affecting production; they are problems that are, in a major way, susceptible of technical solution; I would put it that they are economic problems.

The demand-side problems, on the other hand, affecting distribution, consumption, and ultimately nutrition, are, in my view, much more difficult to solve:

1. Population growth exerts the most direct quantitative pressure on the food supply. Obviously, if there are more people, there has to be more food. The world has just passed the five billion mark, and it is expected that by the beginning of the third millennium, 15 years from now, the total will be more than six billion. At the same time, it is generally acknowledged that the world now produces enough

food to provide everyone in it an adequate diet--if they had access to it. People have access to food by being able to grow it or buy it; either activity requires income, and income requires development--economic growth equitably distributed. At root, excessive population growth is also a symptom of poverty.

2. Differential consumption patterns arising from inequitable distributed income and wealth account for a considerable part of the chronic hunger and malnutrition characterizing a large part of the world. What this means, essentially, is that we, the people of the industrialized North, out-eat the people of the developing South about 4 to 1 in grain, the basic food. Moreover, most of our grain is consumed indirectly as milk, meat, and eggs. Thus we out-eat the poor in food-deficit countries both quantitatively and qualitatively.
3. The social and political system in most countries and the policies it generates--as well as the international economic system in general--discriminates against the poor, especially the primary agricultural producer, and thus causes and perpetuates hunger. This is true in both North and South, but it is perhaps more poignant in the food-deficit countries, because they are much less able to do something about it than we are in the North--and in the US in particular,

So much for causes. What about recommendations for remedial action now and preventive action for the future?

I believe the supply-side factors are essentially technical and therefore more easily susceptible to solution, if there is the will to solve them. The demand-side factors are much more difficult, because they are, in the end, much more political. They require us to examine critically an international (and national) system that we have, by and large, benefited from and over which we exercise a very large measure of control--more, in fact, than any other single nation.

This kind of examination has been going on steadily over the past dozen years, stimulated by the United Nations World Food Conference in Rome in 1974. That meeting, in the midst of the food crisis of that year, highlighted the challenge of rural development implicit in the enormous gap in large parts of the world between people's nutritional needs and their ability to produce or pay for essential food requirements. The conference recognized that, while there was no shortage of food in relation to effective demand, there was also no surplus in relation to nutritional needs.

The World Food Conference, in which the US played a conspicuous part, agreed that two sets of problems required immediate and sustained attention, although strategies to deal with them would move on parallel tracks at different seeds: 1) the immediate problem of creating a world food security system via food aid, establishing grain reserves, and improving terms of trade for the food-deficit countries; 2) the longer-term objective of increasing food production and improving its distribution in food-deficit countries--i.e., the systemic question.

Now, a dozen years later, it is no less clear that a long-term strategy is needed that also copes with immediate food problems. Food is required immediately for the starving, but longer-term development strategies are needed to achieve sustained expansion of production, provide employment, generate income, stimulate

participation in decision-making, and improve the quality of life of the poor. Such strategies require some very basic--and often difficult--decisions by the governments of food-scarce countries and by governments and international institutions that want to help them. These decisions have to do with measures to increase production, improve distribution, deal with problems of immediate malnutrition and imminent starvation, and pursue the short-term goals vigorously without compromising the long-term ones.

There have been some progress since the 1974 conference. Some countries have instituted national food strategies. The World Food Council, set up in 1974, has taken considerable leadership in pushing progressive food policies. New institutions have been created, such as the International Fund for Agricultural Development (IFAD), which has leveraged about $9 billion in loans to small farmers in food-deficit countries. And a billion more people are being fed.

Yet we find ourselves still confronting the problem of hunger in a world of abundant harvests--a problem that seems even more threatening and intransigent than it did a decade or so ago. Even the progress since that time has complicated the issue; economic growth has brought more developing countries into an international system that seems ever more unmanageable. For example, there is no way the long-term problem of hunger can be solved without some resolution of the $1 trillion debt of the Third World. International trade is no longer expanding, foreign private investment is no longer flowing into the poorer developing countries, and development aid from the industrialized countries is declining.

These observations underscore the view that hunger is more symptom than problem; it has to be treated, of course, as symptoms must. But unless the underlying "disease" of underdevelopment and injustice is also treated, there will be no long-term solution to the problem that gives rise to this hearing. Everything actually is connected to everything else, and it makes for a large agenda.

There is nothing significantly new in what I have said. It has all been laid out many times before and in much more and better detail in studies by the World Bank, the US Department of Agriculture, the UN Food and Agriculture Organization, and many private universities, research institutes, and operating organizations. In particular, this kind of analysis formed the basis of the 1980 report of the broad-based, bipartisan Presidential Committee on World Hunger, in which two members of this committee--Senators Dole and Leahy--participated.

That report, in my view, proposed a remedial program that, if carried out, would have gone a long way toward avoiding many of the problems we now are facing once again. While it would probably not have prevented famine in sub-Saharan Africa, it would have put this country in a better position to act quickly to mitigate the suffering caused by that sad event. That program is still pertinent today.

The Hunger Commission concluded that the US did not have a food policy as such. Its central recommendation was that the United States "make the elimination of hunger the primary focus of its relationships with the developing countries, beginning with the decade of the 1980s." While some of the Commission's recommendations are dated, most of them remain valid; regrettably, the efforts called for were not made.

I don't want to imply that the entire responsibility is ours in the US; the other industrialized countries, as well as the food-deficit countries themselves, share that responsibility. Nor do I want to ignore our own difficult financial situation--with huge federal budgetary and trade deficits. But I do wish to suggest that eliminating world hunger is a matter of human choice, not impersonal forces; it is not only a technical problem, but also a political one. It will cost something, but comparatively little. Surely if we can contemplate spending nearly $600,000 a minute on arms, we should be able to make a comparative analysis of how much we ought to spend to prevent the scourge of hunger and save the lives of millions of the world's most vulnerable people. Surely if we can deal with the intricacies of defense and military strategy, we would be able to figure out a solution to the problem of a massive Third World debt.

Let me conclude this brief statement by quoting from the introduction to the Presidential Hunger Commission's report:

> "In the final analysis, unless Americans--as citizens of an increasingly interdependent world--place far higher priority on overcoming world hunger, its effects will no longer remain remote or unfamiliar. Nor can we wait until we reach the brink of the precipice; the major actions required do not lend themselves to crisis planning, patchwork management, or emergency financing...The hour is late. Age-old forces of poverty, disease, inequity, and hunger continue to challenge the world. Our humanity demands that we act upon these challenges now. This Report is not intended to represent the consummate distillation of knowledge about hunger and malnutrition. Rather, it is meant to stimulate the accelerated efforts needed to overcome hunger before time runs out..."

We at Interfaith Action believe that the extent, causes, and remedies for world hunger are known--and those remedies are well within the world's competence, if there is a collective will to undertake them. The US continues to be in a position to cooperate effectively in this area. We hope it will do so.

Thank you for your attention.

STATEMENT OF WILLIAM AYRES, EXECUTIVE DIRECTOR, WORLD HUNGER YEAR

Over the past thirty years the U.S. has poured billions of dollars of emergency aid and development funds into countries in Latin America, Africa, Asia and the Middle East. There have been dramatic life saving efforts as in Ethiopia last year, dozens of individual projects that have been quite successful and countries that have become more food self-reliant with our help. And yet dispite enormous scientific and technological breakthroughs, hunger remains at catastrophic proportions in dozens of the world's poorest countries.

I would like to begin by stating two basic truths about hunger that ought to form the bedrock of U.S. aid and development policy and then to enumerate several policy guidelines that follow from these truths.

Basic Truths About Hunger

1. Hunger is Intolerable in a Civilized Society

Little more than a hundred years ago slavery was an accepted part of civilization, well into this century, the servitude of women and children to the master of the house was also the norm and in some parts of the world human sacrifice was practiced in various forms. In each case a group of people with vision and the courage of their convictions worked against great odds and real danger to themselves until they eliminated an intolerable evil in society.

My friend and partner the late Harry Chapin used to say that hunger is an obscenity and hunger in America is the ultimate obscenity. I do not think that our government accepts this basic position and until we do we will not make any appreciable dent against hunger.

The two common rejoinders that we hear against this basic truth that hunger is intolerable are "the poor you have always with you" and "we are already doing enough--look at all the money we have spent."

The first line, "the poor you have always with you" is, of course, a misappropriation of a quote from Jesus that was originally meant for a specific situation and which belies his whole ministry of feeding and healing to the poor.

The second objection ignores the fact of our dominant economic and political position in the world and our real long term security interests.

2. The Root of Hunger is Poverty and the Root of Poverty is Powerlessness

People are not hungry because of laziness or stupidity but because they do not have the land and means to grow food or a job that pays enough money to buy food. Eight years ago Harry Chapin argued this point to his fellow members of the Presidential Commission on World Hunger. Most agreed, but others contended that the real causes of hunger were overpopulation and lack of adequate farming methods. They believed that one or more "technological fixes," such as proper birth control devices, and the "Green Revolution" were the main tools to fight hunger. They are, of course, just that--tools which are certainly needed but only as part of a hunger policy.

That policy if it is to be successful, needs to be faithful to the 1975 New Directions Amendment to the International Development and Food Assistance Act which says "United States bilateral development assistance should give the highest priority to undertakings submitted by host governments which directly improve the lives of the poorest of their people and their capacity to participate in the development of their countries."

This means projects and programs which:

1. Do not continue the support of dictators who are keeping the vast majority of their people powerless e.g. the recent dictatorship in Haiti, Sudan and the Phillipines as well as present regimes in Zaire, Chile, and Paraguay.
2. Actively promote the participation of local people in such a way that the program gives them more than temporary relief.
3. Help develop the agricultural sector for the production of food for local distribution.
4. Involve women in the decision making and overall administration.

5. Work in partnership with local PVO's church groups, peasant associations and unions.

6. Focus more heavily in small and medium size agriculture, health and educational ventures.

7. Increase our proportion of economic aid versus military aid. In countries like Haiti and the Phillipines where massive grassroots movements for justice are looking for our support. We should feed the fragile fires of democracy rather than allow short term military advantages to dominate policy. In dictatorships like Zaire and Chile we should curtail our aid until substantive changes are made in dealing with hunger and human rights and in countries like the Sudan which faces perhaps the worst immediate starvation on earth we should use what ver economic and political power we can to make sure that food reaches the some two million people in the south who face the most severe crisis.

SEPTEMBER 16, 1986 HEARING

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

Mr. Chairman, I commend you for calling today's hearing. It is the third in a series of three hearings on food aid and world hunger, and will focus on the important issue of how we can better use our food aid for promoting economic growth and developing markets for our farmers.

Your series of hearings, Senator Boschwitz, has proven most enlightening. It signals, I believe, this committee's intention of becoming even more involved in the issue of food aid.

Food aid is an important element in both our agricultural and foreign policies. For our farmers, food aid programs can help reduce domestic surpluses, and create future markets. To foreign governments, our food aid program often represent very significant subsidies.

However, it is important to remember that food aid is a "double-edged sword." In the past we have seen such aid used by local governments to prop up policies, and build up bureaucracies, which stifle free enterprise. In addition, food aid carelessly allocated can flood local markets and depress prices for local farmers.

Last year, this committee developed some programs aimed at minimizing these counter-productive elements to food aid.

The section 108 program takes currencies which would otherwise be used to strengthen central government bureaucracies, and instead provides loans to private enterprise.

The Food for Progress program utilizes surplus U.S. commodities to assist developing countries which are rediscovering the miracle of the free enterprise system.

These programs represent just two ways our food aid can better promote real economic growth. I look forward to hearing today's witnesses tell us how else our programs can be used to promote economic growth and develop markets for our farmers.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

This is the third, and final, hearing in a series of hearings on U.S. Food Aid Programs and World Hunger.

The issues surrounding world hunger are vast and complex. Throughout my first term in the U.S. Senate, I have made the fight against world hunger one of my highest priorities. I believe that in a nation where vast surpluses of grain must be stored on the ground, instead of proper facilities, we must find a way to get rid of these surpluses while helping to feed the world's hungry. Part of the solution lies in U.S. food aid programs.

This has been an important forum for exchanging ideas about the use of U.S. food aid programs to ease world hunger, and as the ranking member of the Subcommittee on Foreign Agricultural Policy, I would like to commend you, Mr. Chairman, on the initiating this informative series.

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Mr. Chairman, today the subcommittee concludes its review of U.S. food aid programs. During the past two hearings, a great deal of important information was compiled for the Committee's use. Most importantly, the subcommittee's hearing record shows that common sense should prevail--there is no point in letting food sit in storage at the taxpayer's expense while hunger prevails in many parts of the world.

A continued high volume of food assistance is needed. In a recent report, the Department of Agriculture estimated that those developing countries currently receiving P.L. 480 assistance will need 7 million tons of cereal grain during the next year just to maintain the present level of consumption. But that 7 million tons of grain will not even begin to meet the nutritional needs of the people of these countries. Twice that amount, or 14 million tons of grain, would be needed to provide the people of the participating countries with an adequate amount of food.

That additional quantity of food donations will not hurt the budget, and Nebraska farmers would welcome the opportunity to move the grain overseas. Most importantly, those donations will eliminate needless human suffering.

There is no question that the United States can supply the grain for the program. Our Nation is awash in grain. We now have a year's supply of wheat and half of a year's supply of corn in storage. Farmers are scrambling to find adequate storage for this year's harvest. Storage costs for surplus commodities during the next fiscal year will amount to nearly $1.9 billion. It wasn't long ago that the total cost of all the farm programs did not approach that sum.

The Administration evidently places a low priority on the P.L. 480 program--the Administration's budget request projected a funding cut and only minimum shipments for the coming year. I believe that is a shortsighted view. The Food for Peace program clearly could benefit farmers in the United States and needy people in recipient countries.

Under the 1985 farm bill, the American farmer was forced to forgo much of the price and income protection offered in the past. In return, farmers were promised assistance in expanding foreign markets. Our farmers are sacrificing, but the Administration is not providing the promised assistance. The P.L. 480 programs are a proven means of market development. To undercut support for the programs at this time violates the rules of common sense.

The Nation's farmers cannot reply on empty promises any longer. At this time of great need in our farming communities, we must make every effort to move our agricultural products to overseas destinations--through commercial sales, concessional sales, and through the available donation programs, including Food for Peace and section 416 authorities.

Mr. Chairman, I hope today's testimony will show the Committee what steps must be taken to prod the Administration into action to move farm products to areas of the world that can use them. Thank you.

STATEMENT OF HON. MITCH McCONNELL, A U.S. SENATOR FROM KENTUCKY

Mr. Chairman, I will begin by once again commending the distinguished Senator from Minnesota for conducting this series of hearings. To date they have been insightful and interesting and have, I feel, helped us define future directions for our food aid efforts.

As a nation we have attempted to promote economic growth throughout the Third World for decades. It has been a driving factor behind our foreign policy and a whole rubric of foreign assistance programs. Though we find ourselves at times overwhelmed by the task ahead of us, I think the successes of our past efforts are notable. For example, Japan and Europe after World War II.

Another example that I am particularly familiar with is South Korea. After the Korean conflict that tiny nation was essentially devastated. Our response was to provide in excess of $1.9 billion dollars in development assistance in the form of food donations, concessionary sales and long term credit for purchasing our agricultural commodities. As a result we have seen them grow into one of largest agricultural trading partners. In 1985 we exported over $320 million worth of cotton to the South Koreans as well as $270 million worth of unmilled wheat. Last year we sold them $200 million worth of corn and $185 million of soybeans. Though trade barriers exist, there is every reason to believe that a strong agricultural trade relationship will continue to evolve.

The lesson is clear that we have a valuable tool at our hands with which we can affect positive change in the underdeveloped world, while at the same time open up new markets for American agricultural products.

One of the primary challenges facing American agriculture is what to do with the overwhelming surpluses of program commodities that the Federal Government has on hand. Before we can make any significant progress toward improving our farm situation we will have to find ways to rid ourselves of this burden. The 1985 Food Security Act made radical changes in our existing farm programs so that they would be sensitive to world market realities, and in turn we would avoid the problems created by encouraging overproduction. After attending a recent hearing conducted by this subcommittee, I am confident that we are on the right track. But we cannot be passive and merely wait and see. Food aid, disaster assistance, and development assistance involving the use of our surplus commodities can effectively improve the situation here at home.

We are living in a world in which hundreds of millions wake up hungry every day while the storage bins in this country are bursting. This is a tragic paradox and I am concerned that we not only continue our current food aid activities but that we aggressively utilize the tools written into the farm bill. We must pursue creative methods for getting the food to those who need it.

Though food aid is no panacea for our farmers problems and is only a component of the effort to eliminate world hunger, it is an attractive alternative which is beneficial to both donor and recipient. Again, I commend the Senator for holding this series of hearings and look forward to hearing today's testimony.

(The following information was provided by Nicholas N. Eberstadt:)

Restoring Purpose to American Foreign Aid*

Nicholas N. Eberstadt

American foreign aid policies must be made more effective. Their effectiveness cannot be increased, however, without an appreciation of the larger purposes to which they are to be applied. In principle, these purposes are clear. The first is to augment American political power throughout the world. The second is to support the postwar liberal international economic order which the United States helped create and is committed to preserving.

These purposes are closely related. With its particular political values, the U.S. can achieve greatest security under a world order which accepts as legitimate the free international flow of information, trade, technology, and capital; which does not question the right of people to act to improve their material well-being; and which embraces the rule of law and the propriety of enlightened governance. Conversely, the use of American power to protect a system which offers all nations and peoples opportunity—unmatched by alternative arrangements—to participate in broad-based material advance is not only a strategic goal, but an objective dictated by U.S. moral and humanitarian concerns. The liberal international economic order America helped create remains the best broad hope for the world's poor and disadvantaged peoples. The U.S. should use its power—military, financial, moral—to protect it.

Just as the wedding of moral purpose and international power is fundamental to Americans' view of their own nation, so too should it govern the country's approach to foreign aid. In thinking about foreign assistance, however, it is best to distinguish three separate concerns.

Humanitarian Aid

As current events in Ethiopia show, much of mankind is still stalked by

*The author would like to thank Gifford Combs and Clifford Lewis for many hours of enlightening discussions on some of the topics addressed in this chapter.

the prospect of famine and sudden, unexpected, life-threatening disasters. Both private voluntary organizations and the American governmental relief apparatus have developed impressive expertise in saving lives in such emergencies. These efforts have demonstrated that it is possible to prevent abnormal rises in death rates so long as donors receive early warning of the impending crisis, and the government of the territory in question does not obstruct rescue efforts.

The American people consistently have proved that their compassion for those in distress abroad is mitigated neither by the ideology of the government of the stricken territory nor the relationship of that government with the U.S. In the early 1920s, for example, private donations funded Herbert Hoover's American Relief Administration as it worked in Soviet Russia to save, according to George Kennan, the lives of "several million children, who would otherwise have died." Today, Americans are donating millions of dollars to support relief operations in Marxist-Leninist Ethiopia; these contributions mounted spontaneously after information on the famine was released. Ethiopia's ruling *dergue*, like the Soviet Politburo, is systematically hostile to American purposes in the world, but this fact did not constrain Americans' charitable impulse. Americans' commitment to humanitarian relief is moral, not political, in derivation. It represents a basic commitment from one people to another, and is based on the belief that the sanctity of life creates a transcendent obligation to act to save others.

American policies toward humanitarian aid should better reflect these beliefs. Doing so will require changes in the posture and the actions of the U.S. government. The official American response to the disasters of imperiled peoples should not be compromised by the hesitation and political calculation which, by some news accounts, affected the early U.S. efforts in the current Ethiopian crisis. There should be no doubt on the part of U.S. governmental agencies that Americans feel it is unseemly to submit endangered populations to trial by *realpolitik*.

Washington should make a more encompassing and articulate commitment to help populations imperiled by famines and other temporary emergencies. In a broad sense, such a policy should commit the U.S. unreservedly to the rescue of those whose lives are threatened by emergencies and disasters—irrespective of their government's attitude toward the U.S., toward human rights, or any other consideration. The only condition that Washington should place on such aid is that local governments not obstruct the efforts of outside agencies to act in the afflicted areas. This broad commitment to famine and emergency relief might help save millions of lives in stricken regions that otherwise would be lost in future years. It will also be obvious that great loss of life from famine and disaster would only occur under governments which refused to let America make good on its humanitarian commitment to the people of the world.

Expanded humanitarian commitment would require several important changes in current government relief policies:

1) *The priority accorded emergency relief within U.S. foreign aid policy must be upgraded substantially.* At present, only about one percent of total foreign aid budget is allocated to emergency assistance. Even with the "Food for Peace" or P.L. 480, less than 10 percent of program resources in recent years have been earmarked for famines, emergencies, and disasters. Governmental relief capacities also need to be improved. AID's emergency relief staff is good, but too small. In expanding it, the foreign aid officials might learn some useful lessons from the Federal Emergency Management Agency.

2) *Delineate and divide more clearly the roles of government and nominally private volunteer organizations (PVO).* In some ways, there is little "private" about PVOs for they typically receive a great part of their funds from the U.S. government; some PVOs, in fact, depend on Washington for as much as 80 percent of their funding. This dependence very often reduces the effectiveness of PVO efforts.

   However, as a general rule, PVOs have more flexibility than official U.S. relief efforts. They can also be considerably more cost-effective. On the other hand, there are some emergency functions and services which the U.S. government can undertake more credibly than nongovernmental groups. Finding the proper balance of "private" and government action on a life-saving mission should be determined empirically, based on "comparative advantage." As a general rule, however, the government should avoid policies that displace voluntary charitable donations, since this would only undercut the basic humanitarian impulse upon which U.S. policies ultimately rest.

3) *Improve the early warning systems that may alert countries to approaching famines and disasters.* Aerial surveillance information of the sort collected by the U.S. Department of Agriculture for its global crop assessment and the Commerce Department's meteorological capabilities could help in this regard. Better communication between private groups and government organizations and reducing barriers created against the international news media in different locations also could greatly strengthen the world's "ground based" early warning systems.

4) *Preposition emergency relief stocks and trim bureaucratic red tape, particularly requisitioning and payment procedures.* This will cut substantially the lead times in attending to emergencies. The Reagan "Food for Peace" reforms announced last July were an appropriate step in this direction.

An increased American presence in the field of famine and emergency relief raises an important question and creates an important problem.

The question concerns the appropriate role for international organizations and institutions—particularly such groups as the International Committee of the Red Cross and the U.N. High Commissioner for Refugees. These groups, under some conditions, have proven highly effective in saving lives during emergencies. It is important to note that such institutions also carry credentials of impartiality and internationalism (despite critics' charges that they have not always lived up to these ideals). Since it is in the interest of the U.S. and stricken peoples that relief efforts be international and politically impartial, Washington should encourage international coordination and cooperation in relief activities. At the same time, the U.S. should expect that such relief efforts not be politically exploited or financially mismanaged.

If the United States makes it clear that it is eager to cooperate with others, but that it could "go it alone" if political or other difficulties prevent international institutions from contributing effectively to relief efforts, it would demonstrate its commitment to both internationalism and endangered populations. Whatever the U.S. does, it must ensure that the aid it provides actually reaches those in need and is not diverted or squandered. In some emergencies, therefore, the U.S. may find it appropriate to use its military resources to transport aid to crisis areas and to distribute the aid to those in need.

The problem concerns the risk of "moral hazard"—the danger that expanded American famine and emergency relief commitments may lead governments in less developed regions to ignore the distress of their populations, or to create outright famine conditions. The risk of moral hazard can never be eliminated completely from any humanitarian commitment, but it can be minimized. One way to do so is to ensure that "emergency relief" is temporary. The history of the U.N. Relief and Rehabilitation Administration 40 years ago gives some insights into how such strictures may be made effective.

A second method to reduce this side effect of aid is through international moral pressure. This is not always an effective means to force governments to conduct themselves decently; its potential, however, should not be discounted. Publicizing in various forums state acts which cause needless deaths and distress can shame even the most seemingly hardened governments. Such information may also affect a country's prospects of obtaining additional international aid. Free and unimpeded news reportage is essential for this process. International organizations may also play an important role as impartial observers in conferring opprobrium on offending governments. Their role as impartial observers carries weight and might, through reforms, be made to carry more.

Development Aid

Redirecting American "development" policies to the task of encouraging self-sustaining economic growth will require major changes in the operation and direction of government agencies currently charged with promoting economic advance in less developed countries.

Within a liberal international economic order, it is not the volume of concessional foreign aid that sets the ultimate constraint on a less developed nation's pace of economic transformation and material progress. Instead, the limit will be set, in practice, principally by the recipient government's policies, administrative competence, and willingness to take advantage of the opportunities afforded by international markets in goods, services, and finance.

Apart from their congressional budget presentations and their election-year pronouncements, current American "development" policymakers seem to pay strangely little attention to the policy environment in less developed countries, or to the resulting "climate" of economic incentives and disincentives.[1] Judged by actions rather than words, a principal thrust of current development assistance policies would seem to be the encouragement of international transfer payments to raise living standards through social spending. The rationale for such a policy is to build "human capital." As with any other form of capital, however, the rate of return depends on the manner in which it is put to use. To a distressing extent, the social programs today justified under the rubric of "human capital" do not create "human capital"; instead, they fund unproductive public consumption in its name. Such transfers do not encourage self-sustaining growth in most recipient nations. To the contrary, they tend to distort growth processes and economic structures. Moreover, concessional budgetary transfers have often had the effect of overvaluing exchange rates and thereby reducing recipient nations' abilities to compete in, and learn from, the world economy. The consequences of such distortions on the sustainability of emergent structures and the prospects for the poor within them are predictable.

As currently directed, the Agency for International Development (AID) conducts a foreign policy that often varies substantially from that of the State Department. This can be seen in AID rules which systemati-

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[1] The story of AID's disappointing performance during President Reagan's first term of office cannot be fully developed in this short, prescriptive chapter. Suffice it to say that elements of this story include the steady subordination of policy questions to public relations concerns, a reluctance or indifference to the restoration of policy competence within the agency, and a drift in direction which contradicted many of the bipartisan objectives the President, himself, laid down. A fuller expansion on this topic may be found in an article by this author in a forthcoming issue of *Commentary* Magazine.

cally circumvent the intentions of U.S. human rights legislation, "policy determinations" which undercut State Department positions toward the U.N.-promoted "New International Economic Order," or initiatives which either displace private economic activity or tie aid to the purchase of specific American products in a variant of mercantilism. This discrepancy reflects apparent belief, often embodied in AID documents and official statements, that the international economic order which the U.S. officially supports cannot work for the poor—or should not be allowed to do so.

American developmental aid should support the workings of just this liberal international economic order. Assistance should be directed toward helping governments govern more productively, rather than redressing international poverty through unsustainable transnational budget transfers. Development assistance should be guided by principles of entrepreneurship and comparative advantage: that is, of making the most productive use of scarce resources through key interventions. The experience of such nonprofit groups as the Rockefeller Foundation and the Ford Foundation in the early post-World War II period demonstrates how tremendously important such a strategic use of charitable monies can be for the purposes of promoting development.

To realign American "development" efforts with the purposes of strengthening the liberal order and encouraging improved governance in developing countries it will be necessary to restore them to providing "technical assistance." Technical assistance was the guiding premise behind U.S. development policies in the early postwar period—the era when many aid recipients "graduated" out of aid and into broad-based self-sustaining economic growth.

To restore U.S. "development" policies to the tasks of productive technical assistance, many current aid programs must be altered or eliminated. Determining which projects and policies encourage self-sustaining economic growth and increasing government competence is an empirical, not an ideological, question and should be answered through a careful evaluation and review of existing programs. It is likely that new programs will also have to be developed to meet needs in the less developed countries. In some fields, the requisite know-how for such programs may not yet exist, and may have to be created through research and development.

A comprehensive program for "development assistance" reform cannot be outlined briefly. But components of a reform strategy include:

1) *Remove institutional and legislative shackles impairing effectiveness of U.S. development policies.* Organizationally, the present International Development Cooperation Agency (IDCA) separates AID from direct accountability to the State Department. The purposes of AID or any successor organization should be

identical with the purposes of overall American foreign policy; for this reason, AID should be brought back fully into the State Department structure. "Congressional notification," restrictions on obligational carryovers, and other special legislative stipulations which reduce the ability of development officers to design and administer programs efficiently should be reviewed and, where necessary, rescinded.

2) *Review U.S. contributions to United Nations development activities.* To a distressing degree, the programs funded by the United Nations and related organizations in the name of "development" are hostile to a free and open international economy. The U.S. should take no part in undermining the system it helped create, which has promoted prosperity in a host of once impoverished lands. Washington should undertake a thorough review of its United Nations funding and stop subsidizing those U.N. programs that are found to be inconsistent with the goals of economic freedom. Washington should be neither defensive nor apologetic about disinheriting such activities; to the contrary, it should explain clearly the rationale behind each decision.
3) *Cut back "soft" development lending.* There is little evidence that "soft loans" have special merit in promoting development. To the contrary, very often they confuse charity and commerce in the view of recipient governments. (This confusion may be relevant to the current "debt crisis"—a problem whose underlying causes can be traced in part to a tendency to use commercial loans in less than businesslike ways.) Transfers of capital to less developed countries should be understood as being either charitable or commercial—not in between. The International Development Authority (IDA) of the World Bank is the major international vehicle for concessional lending to less developed countries. But the projects it finances, if economically sound, should be just as workable under ordinary World Bank auspices. The U.S. should not replenish IDA funds. It should take a similar position toward the other "soft" lending programs in which it currently participates.
4) *Return the World Bank and other multilateral development banks to their original purpose.* As originally envisioned, the International Bank for Reconstruction and Development (IBRD), commonly known as the World Bank, was to serve as a main pillar of a free international economy. It was to promote technical assistance and to encourage the creation of a positive "investment climate" in which economic progress might be hastened. The Bank was specifically expected to refrain from displacing private capital or from contributing to national policies which would restrict economic activity in borrowing countries. However, the Bank's

present activities do not always seem consistent with these original purposes. The World Bank and other development banks need careful examination, evaluation, and review. Like America's own development institutions, they may usefully be reminded of the purposes for which they were established.

5) *Reform P.L. 480.* The U.S. "Food for Peace" program does not serve developmental goals. In large part, the program's concessional sales strategy is a commodity disposal project subsidizing U.S. farmers. Unloading cheap American food on the markets of less developed countries typically has destabilized local agriculture and reduced incomes within the rural sector, usually the poorest sector in poor nations. Only a small portion of current "Food for Peace" allocations go to emergency or famine relief. A reformed "Food for Peace" program would increase the volume of food aid earmarked for victims of famines and disasters, and diminish allocations for all other purposes.
6) *Build statistical competence in developing nations.* Governments in the less developed regions cannot pursue enlightened and informed social or economic policies unless they have accurate information on social and economic conditions in their countries. This requires domestic statistical systems which both can accurately assess social and economic conditions, and monitor changes rapidly and effectively. Many governments lack even the fundamentals of such an apparatus; some, for example, have no solid estimate of such basic factors as their national populations. Demographic, economic, and statistical training to strengthen the data collecting infrastructure upon which informed governance depends should be a priority form of technical assistance. To the extent that knowledge helps create moral responsibility, better information on national social and economic conditions may also serve as a force of moderation in certain developing states.
7) *Increase technical assistance through U.S. universities.* In such fields as agricultural research, engineering, and health sciences, American universities offer unparalleled opportunities for training. Many other areas of study and research also offer opportunity for strategic transfer skills and knowledge to selected students from developing nations. A reformed American development program should consider ways in which the resources of America's universities might be put to greater "development" use, as well as what new capacities might usefully be developed. A variety of new initiatives likely will be required to meet the technical needs of developing countries.
8) *Expand competitive funding in support of technical innovations for developing countries.* AID's innovative Scientific Research Project and its Strengthening Scientific and Technological Capac-

ity Projects demonstrate how U.S. government funds can encourage research and strengthen technical capacities in developing countries. A similar program may be able to encourage development of devices and technologies of social benefit to developing societies.

9) *Develop movable "policy hospitals."* To loosen the constraints of injurious or inefficient indigenous economic policies on the development process, it may be helpful to educate leaders and decision makers in developing countries about the economic consequences of policies they have chosen, and the alternatives implicit in a variety of strategies that they might pursue instead. This could help foster a lasting competence in dealing with such issues as taxation, finance, budgeting, foreign exchange management, and pricing policies. "Policy hospitals," comprised of informed and well-trained personnel, could be sent to receptive states. At present, AID probably lacks the qualified personnel needed for this. Resources for such a program could be drawn from the American academic and business communities; some of the know-how necessary to make such a program operational may have to be developed.

10) *Help governments in developing countries make markets work.* The "miracle of the marketplace" is a delicate and complex phenomenon, and should not be taken for granted. Markets are not perfectly efficient arbiters of economic activity—if they were, there could not be such as thing as entrepreneurship. A major task confronting a less developed country is to develop a marketing infrastructure, which rapidly and cheaply conveys goods and services and information and knowledge. Developing countries also must learn about and understand international markets—including financial ones—if they are to take advantage of the opportunities provided by the international system.

"Making markets work" to a great extent is simply a matter of refraining from destructive interference in their operations. But societies and governments can also take positive actions to create the atmosphere and to build the linkages and networks upon which efficient and productive markets depend. The U.S. has much to offer developing countries that wish to improve the functionings of their economies. For example, U.S. business schools train students in the practical aspects of market development; these institutions could teach students and policy makers from less developed countries as well. Making markets work also depends on the extent to which developing societies successfully build sophisticated and competent financial infrastructures. Training teams such as those developed by the Harvard Institute for International Development may be able to assist here, but in the realm of technical assistance

this field remains largely *terra incognita*. Policy makers should consider ways in which to promote these skills.

11) *Encourage U.S. allies to reform their development policies.* A renewed commitment to the principles of the liberal international economic order and to the goal of self-sustaining economic progress will be more effective if emphasized by other Western nations. U.S. allies should consider what their chances of recovering or developing would have been after World War II if the U.S. had treated them to the same "development" policies which they themselves apply to the "South" today. A dialogue on development reform with other donor nations could greatly increase prospects for the success of both national and cooperative multilateral assistance efforts.

As a final note on "development," it should be emphasized, lest there be doubt, that support for a free international economy and commitment to improving policy competence and administrative capacities in less developed countries are not simply code words for enforcing "laissez-faire" internationally. The Republic of China (Taiwan) and South Korea, for example, have performed exceptionally well within a free economy, yet neither is a "minimalist" government. Taipei directs the ROC economy through "Four Year Plans" and manages a large public enterprise sector that has accounted for as much as two-fifths of the nation's capital formation in certain periods. In Korea, the entire banking and credit system was government run until quite recently; even today the collaboration between government and the "jaebol," or industrial conglomerates, is reminiscent of the situation in Japan in the 1930s. Nevertheless, both countries have been able to take advantage of opportunities from an international economic system that emphasizes results rather than intermediary structures and is thus tolerant of social and political diversity.

The pool of understanding on the many ways in which governments may stimulate national development is neither as wide nor as deep as might be wished; after more than a generation of international "development" efforts it sometimes seems as if surprisingly little is known. For this reason, the promotion of competent governance in developing countries should be treated as an empirical, not ideological, issue.

Security Assistance

The purpose of U.S. military and security aid is to apply American power internationally by: (1) strengthening the defensive capabilities of states in the American alliance structure; (2) helping friendly nations quell internal political or military disturbances; and (3) assisting friendly nations in buying breathing space and, with luck, in regaining or retaining

stability. On occasion security assistance may be used to buy friendship from governments where this is a commodity for sale.

The premise underlying security assistance is that the extension of U.S. power in the world and the purposes which it serves are legitimate. More than any Great Power, possibly more than any other nation, the American public judges its international initiatives not on the basis of narrow national gains, but by the broader and more demanding standards of moral purpose. If these goals are clear and accepted, as they were in World War II, public support is open-ended and wholehearted; if moral purposes appear to be in doubt (as was thought to be the case in the era of Vietnam and Watergate), the use of American power abroad will cost the government and the nation greatly.

The ultimate constraints on security assistance, then, rest on the American people's attitudes toward their government and their nation. This attitude is conditioned by trust, which depends in no small degree on the clarity and honesty with which America's leaders explain the international situation and argue for the actions they believe necessary to meet international challenges. Trust is also conditioned by the faithfulness which the nation's leaders show, in words and actions, toward traditional American principles.

Security assistance cannot lead the U.S. to a foreign policy consensus, but it can play a role in developing domestic support for overseas initiatives. As such, U.S. policy makers must explain honestly what military aid is, and what it does. It is not a humanitarian program in any immediate sense. To be sure, the global order which the U.S. supports is expected, in the long term, to promote humanitarian goals. But money for soldiers and police in a developing nation should not be confused with emergency relief for the victims of disaster.

Just as security assistance is not a humanitarian program, neither is it a "development" program. Security assistance programs themselves are not meant to spark self-sustaining economic growth in less developed nations. In fact, the overwhelming emphasis of U.S. security assistance efforts, it may be argued, is on developed nations—through the defense commitment to Japan and NATO. It is simply an accident of geographic and historical circumstances that some of the nations to which Washington extends military and security aid, such as Pakistan and the Sudan, happen currently to have low levels of per capita output.

It is far from certain, moreover, that long-term transfers of money for security purposes promote self-sustaining economic growth. One need only look at economic events in Egypt and Israel—the two principal recipients of U.S. security assistance funds since the conclusion of the Camp David Accord—to appreciate this. Security assistance and "economic support funds" increase a government's freedom to maneuver. But what it does with this freedom depends on its attitudes and capabilities.

(Very different results should be expected in, say, Singapore and Zaire.) Security assistance is but an instrument to increase a regime's odds of political survival. Political survival is the first concern of governments, and rightly so: neither development nor any other positive aim of government can be pursued effectively under a government whose future is in doubt.

Security assistance must be considered separately from humanitarian and development assistance, not only because its purposes are different, but also because different rules govern its effective application. Both humanitarian and development aid may have positive effects even when their totals are, in some sense, insufficient. Half the money necessary to prevent all famine deaths, for example, will ameliorate some suffering nonetheless; a quarter of a complete technical assistance program will likely be better than no program at all. This is not the case with military or security assistance. A commitment of only 95 percent of the resources necessary to win a war or stabilize a regime amounts, in effect, to no commitment at all. The discontinuous nature of political outcomes and the uncertainties inherent to them mean that a successful security program will typically err on the side of excess. Thus, by any economic measure, it will be often to charges of "inefficiency" and "waste." These problems cannot be eliminated in a program of political aid, but can only be reduced through careful management.

The effectiveness of security assistance can be improved through a number of reforms. Among these:

1) *Remove the Economic Support Fund from AID.* Though some of the monies allocated through the ESF program do go to development projects, this is essentially coincidental. The purpose of ESF is not to foster self-sustaining economic development in recipient nations. It is to buy political stability through financial transfers either by increasing local living standards directly or by resolving pressing balance of payments difficulties. These objectives are better described as security related than development oriented. As such, ESF should be administered with programs having similar goals.
2) *Reduce the soft lending component and raise the direct grant portion within the mix of American security assistance funds.* Concessional lending for development has blurred the line between charity and commerce; by the same token, as Jeffrey Bergner argues in this volume, soft lending for security assistance seriously has confused donors and recipients over the distinctions between commercial transactions and strategic commitments. Security lending, moreover has had unexpected adverse economic consequences on borrowers. Making clear distinction between military/security grants and military sales would force American policy makers to

define their objectives more clearly. The U.S. also may wish to consider "loan forgiveness" for some or all of its security assistance debtor accounts.

3) *Reform the legislation governing security assistance.* Since 1974, when it was reported that Uruguayan police receiving U.S. security aid were torturing political prisoners, the Congress has prohibited the U.S. from providing security training or assistance to non-military organizations in recipient countries. The practical consequences of this have been perverse. In El Salvador, for example, it is widely believed that right wing "death squads" operated from within the sanctum of the national police agencies; of all organs of government in El Salvador, these were the only ones to which the U.S. could not apply money, and therefore had least leverage with which to demand reforms.

These unintended effects are not unique to El Salvador. Many countries in Latin America have small standing armies; Costa Rica and several Caribbean states have no army at all. In such nations national security and law enforcement duties both fall under the aegis of the police force, but current laws prevent the U.S. from aiding such societies through security programs. In recent years, one Caribbean country was convulsed by an uprising of Rastafarian revolutionaries intent on seizing the government; another experienced a coup attempt by Ku Klux Klan inspired forces. In neither case could Washington provide necessary security help, for neither had a standing army. Under current U.S. laws, receiving American military or security assistance would require friendly societies in this hemisphere to militarize, thus altering their peaceable civilian traditions, or to request the outright stationing of U.S. troops.[2]

Surely U.S. laws can do better than this. Restricting the ability of the U.S. government to conduct foreign policy is no real substitute for embuing official policies with the moral purposes Americans expect in them.

Conclusion

Foreign aid policies should be used to reinforce U.S. political, economic, and moral objectives throughout the world because these objectives are fundamentally sound. The converse to this argument and its implications is important as well. If America's fundamental political, economic, and is moral purposes in the world are sound, then strengthening U.S. power is in itself a beneficial and effective form of foreign aid.

Building American might is in part a military task, but only in part.

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[2] I am indebted to Mr. Bruce McColm of Freedom House for this information.

America's economic strength and its economic contribution to a free international economy will depend critically on the extent to which the nation remains true to its professed principles of free trade. The U.S. government's success in bringing spending in line with revenues will affect the prospects for the economic security not only of Americans, but also of people all over the world. And America's performance in maintaining the dollar as a stable and reliable currency will have a continuing impact on the prospects for world commerce and international economic growth. Finally, the honesty and decency with which the U.S. conducts its international policies will have far-reaching consequences, for the U.S. is not just a nation; it is an idea.

More than three decades ago, Eric Johnston, the "Point 4" (Third World foreign aid) adviser to Presidents Truman and Eisenhower, reflected on America's role in the world:

> We are living in the last half of the twentieth century, and the scepter of world leadership has been thrust in our hands. I don' think most of us wanted it, but we have it just the same. We find ourselves in competition for the minds of men with imperialistic, expansionistic communism. That competition, in my opinion, will run for a long period of time . . . I am one of those who believe the human wants of mankind are insatiable. The problem is how to provide an opportunity to meet them . . . I believe that the foreign policy of America, though not clearly enunciated—and I wish we would clearly enunciate it . . . is to export the good things of the 20th century to other peoples. It would be a terrible mistake for us to export but a portion of those things. . . .

Little basic progress has been made in resolving the underlying problems to which Johnston referred. Yet his words remain the words of enormous hope. What Johnston realized then and what Americans should know today is that no other nation has ever been in as good a position as the United States to champion the cause of the world's poor. Americans should recognize the awesome responsibilities which this implies, but they should rejoice at the extraordinary coincidence of interests between a strong and healthy America and the prospects of advancement for the impoverished and unprotected peoples of the earth.

STATEMENT OF DR. HANNAN EZEKIEL, COORDINATOR FOR FOOD AID RESEARCH, INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE

If the use of food aid for development is to be properly discussed, it must be put squarely within the context of economic theory. This can be best done first by going back to Professor Nurkse's discussion of development theory when he spoke of food supply as being the critical constraint on economic development. What he had in mind was the increase in the demand for food that results when investment occurs and incomes begin to rise. An even more important factor is population growth, which accelerates because of the fall in the death rate brought about by public health measures using modern health technology.

While the demand for food rises for these two reasons, food production grows much more slowly. An increase in food production requires technological change in farming methods, an expansion of the physical infrastructure -- roads and irrigation facilities -- and a growth in services of all kinds including extension services, fertilizer distribution systems, rural credit, improvements in marketing, etc. Thus, a gap is created between the demand for and supply of food. This leads to inflationary pressures and social instability that can disrupt the process of development.

Since the initial position from which the development process begins is usually already one of extreme poverty, and growth cannot usually take place at a rapid enough pace, rapid population growth means that the numbers of the malnourished increase for lack of income. There is thus a large and increasing gap between the need for food to satisfy minimum nutritional requirements and the demand for food that can be backed by purchasing power.

Food aid acts as a development resource by filling both gaps, that between demand and supply, and that between need and demand. In both cases, food aid also performs a very important humanitarian function. It does this by helping to feed those whose incomes have yet to rise through the development process as well as those who do have income but would not be able to buy sufficient food if prices rose as a result of supplies being inadequate.

It is important to recognize that food aid facilitates the adoption of an employment-oriented development strategy, whose effect would be both to increase the pace of development and to improve its distribution. By reducing the numbers of the poor, such a strategy helps to reduce the gap between need and demand, but that only increases the gap between demand and supply. The volume of food aid required does not diminish. On the contrary, it may increase because those with income tend to increase their food consumption above minimum nutritional requirements and also to improve its quality.

If food aid is used within this framework, it promotes development. What then about the disincentive effects that food aid is said to produce on domestic food production?

The broad answer to this question is relatively simple. Food aid for sale to meet the gap between demand and supply <u>at reasonable prices</u> promotes development by preventing inflation and consequent suffering particularly for the poor. As long as the quantity of food aid provided is smaller than this gap, it does not have any disincentive effect on domestic production. The critical phrase here relates to prices. Food aid must be sold at prices which are reasonable, that is at prices which when trans-

lated into producer prices are such as to offer a reasonable return to food producers in the country. It is important in this connection that the quantity of food aid provided is proper not merely in aggregate terms but more narrowly in relation to commodity composition, timing and geographical distribution.

Policy dependance is a greater danger than direct disincentive effects to producers. The availability of food aid may induce complacency in recipient governments. They may thus not take the steps that are necessary to increase food production adequately. Policies relating to prices, investment, research, administration and marketing must be properly formulated to promote increases in food production. Availability of food aid may prevent recipient governments from giving adequate attention to these matters.

For donors, the answer lies in greater policy dialogue with recipient governments and in greater direct attention to specific uses of food aid that could promote both more rapid development and a faster pace of growth of food production. There is increasing evidence that more and more African governments have recognized the dangers of policy dependance and are paying far greater attention to developing the right policy framework than in the past. However, this raises fundamental issues of development strategy. A great deal of thought needs to be given to these issues as well as to the particular economic circumstances of each country.

When food aid is provided as project food aid -- whether to support feeding projects or employment-generating projects -- increases occur both in the demand for and the supply of food. The increase in demand may be less than the increase in supply unless food aid forms only a proportion of project costs. Even if food aid is greater than this proportion, disincentive effects may not be produced if there is still an unfilled gap between demand and supply after taking program food aid into account. Thus, in aggregate terms, food aid will not have disincentive effects if the total supply inclusive of food aid does not become greater than total demand in the country, including that generated by all domestic and aid-supported programs and projects.

This does not mean that to achieve development, all that is necessary is to ensure that disincentive and policy-dependency effects are avoided. A much more positive approach is needed to the use of food aid as a development resource.

In order to ensure that food aid is used as a development resource in the best possible way, two issues need to be examined. One relates to the apparent dichotomy between humanitarian and developmental considerations. The other relates to the interface between emergency food aid and development.

Humanitarian considerations have been the mainspring of food aid. The aim was to match food surpluses in some developed countries with the needs of the hungry in the developing countries. If humanitarian food aid is targeted on the truly needy, it also results in human development -- improving the physical and mental capacity of the population to carry out productive activities in the future. However, food aid can also be used to ensure increases in the food consumption of the truly needy toward minimum levels by providing them with employment in the creation of long-term assets. Such food aid meets the food needs of the poor or vulnerable sections of the population immediately but also promotes development in the long run. It then needs to be recog-

nized that development itself is truly humanitarian because it reduces the numbers of those who are needy. Food aid which supports employment-oriented asset-creating activities thus satisfies hunger immediately as well as prevents hunger in the future. Food aid should therefore be used to support such activities whenever possible.

Special feeding projects may still be necessary, however, when the needy cannot benefit from employment-creating activities, perhaps because they belong to families which lack employable labor, or perhaps because within the family they may not get adequate access to the additional food that becomes available for consumption. It is, then, essential to ensure proper targeting of the food aid to the vulnerable sections. This may often be difficult. Such aid in any case could be justified on the grounds of human development set out earlier.

The issue of the emergency-development interface in food aid is more complex. When there is an emergency, such as a famine, there is no question, on humanitarian grounds, of the immediate need to provide food to the starving. However, experience of the recent African famine has shown that such aid is usually too little, too late and not ultimately efficient and effective in spite of the tremendous costs in money and effort that are incurred. During such famines, emaciated survivors of long treks from their villages in search of food are fed in camps. These people have left their homes, lost their assets, lost some of their loved ones, lost their physical health and their self-respect.

One lesson drawn from this experience is expressed in the term preparedness. Less suffering and harm will be caused if there is adequate preparedness to deal with the famines when they come. Early warning systems, building of national and regional stocks, repositioning of food aid stocks, setting up of distribution systems and establishing of advance administrative arrangements for dealing with famine are among such measures of preparedness. The argument is that famines are repetitive and one should be prepared for them in order to make the food aid provided as effective as possible.

Preparedness is based on the idea that famines, being repetitive in nature, will occur again. It is best to be prepared for them. However, preparedness and the relief that must be provided at frequent intervals, is expensive. Hence, the idea of famine prevention.

Famine prevention involves dealing with the sources of famine. Irrigation, bunding, drainage, and afforestation, are some of the types of asset creation that could help to prevent famine in particular areas. Research to evolve new seeds that are drought resistant or new techniques that raise the level and reduce the variability of crop production are other measures that need to be taken. Extension services must be built to bring about the necessary changes at the farm level. This is what development is all about, except that in this case it is specifically directed at particular drought-prone regions. Such preventive measures must be integrated together and must benefit from the external economies that each of them generates so that the resources involved can be used most effectively. Food aid can support all such measures. To use food aid in this manner for famine prevention is one of the ways in which food can be used most effectively to promote economic development.

It should be mentioned here that even famine relief, if properly planned, can be used to promote economic development in general and famine prevention in particular. This requires shelves of projects that can be pulled out and implemented at short notice as relief works that will make an effective contribution to the prevention of famines in the future and raise long-term levels of employment and income. Increasing attention must be paid to doing this.

Since variations in employment and income occur seasonally as well as in crisis years, there is something to be said here for integrating the institutional apparatus for dealing with these two types of problems in a developmental context. An excellent example of this is provided by the Maharashtra Employment Guarantee Scheme, which has been functioning for over ten years now in the rural areas of the State of Maharashtra in India.

It is, of course, essential to make a very careful choice of food aid projects and to ensure that they are properly designed, engineered, implemented, managed and monitored. That is not surprising because food aid is an important resource. All resources must be carefully managed in this way to promote development in developing countries.

India is a special case that needs examination in connection with food aid. It was a large recipient of food aid. Since it now produces food that is surplus to domestic demand, it can be considered as a successful case of food aid. However, there is still widespread poverty in India. The supply of food is in excess of demand, not in excess of need.

By concentrating on food production over a period of time, India succeeded in increasing it at a rapid pace. Its overall rate of growth has however been small. Its industrial strategy in particular has, in my opinion, been bad. As a result industrial employment and national income have grown slowly. During recent years, the slow pace of growth of world trade (and of the underlying growth of the world economy) has also contributed to the slow growth of the Indian economy. Although some improvements in politics have raised the Indian growth rate during recent years, this has still remained lower than it could have been if the world economy had done better than it has.

In spite of all this, it may appear absurd to provide food aid to India at a time when it has food surpluses. However, the surpluses are only in cereals. India still has a huge deficit in vegetable oils. Within cereals, it probably has a small deficit in rice offset by a large surplus in wheat. India can still use food aid to promote development at a faster pace. However, innovative use of such food aid would be necessary. For the immediate future, aid would have to be provided in vegetable oils and rice. The effect of this would be to raise employment and incomes and therefore the demand for wheat. Faster economic growth, and particularly faster growth in the incomes of the poor through increases in employment for them could well wipe out the apparent food surpluses of India, huge though they appear to be.

It is worth noting in this context that food production in India has tended to rise in spurts. After each such spurt in production, output has remained at a plateau for a few years. During those years, both population and income has continued to rise. This is what is happening now. Demand may exceed domestic production in a few years, even for wheat. That would be most

likely to happen if demand could be pushed up at a faster pace, among other things through appropriate use of food aid.

STATEMENT OF RAYMOND A. IOANES, RETIRED ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S DEPARTMENT OF AGRICULTURE

FOOD AID'S CONTRIBUTION TO ECONOMIC AND TRADE GROWTH

Thank you for inviting me to this hearing. First, I will respond to the topics listed in you invitation, and then offer some related comments.

Topics 1 & 2 - Food Aid was, and is, one of the essential contributors to economic growth. For example, wheat imports usually must be milled; millings transformed to end products - more goods transported and sold. In short, jobs are created - business is expanded. Feed grains are more of a multiplier since they are mixed with local ingredients and result in growth in livestock production. Taiwan and South Korea are excellent examples of these results during my tenure.

Food Aid can contribute to domestic budgetary savings. A good example is Japan where that government supported our efforts to expand wheat product consumption, thereby reducing its price support costs for rice. Such savings foster economic growth.

The generation of foreign currency through Food Aid sales clearly promotes growth, especially when integrated with the development programs of AID, and the World Bank, and currently the International Monetary Fund. India is a classic example of this kind of integration.

The huge three-year grain agreement with India provided multi-year support for tnat integration. Perhaps we need more three-year agreements today.

In some countries, infrastructure problems hinder imports and distribution. Ethiopia is a current case. Their roads could be improved through Food for Work programs. Food paying for labor costs can improve ports, rebuild rail beds, build drainage canals.

School Lunch programs, which we aided in Japan, have helped add height and weight to the youth of that country. Could such a program be of help to President Aquino?

Topic 3 - I do not believe Food Aid has damaged local production. Brazil is importing more wheat today than during her P.L. 480 years. Then, she had support prices well above world price and was subsidizing bread prices. She had serious rust problems which were not corrected in my time.

On the other hand, India had wheat support prices well below the world level when the three-year agreement was signed. Yet, she is exporting grain today. She did, in time and with Secretary Freeman's backing, increase support levels substantially.

An interesting point, India said she needed a multi-year agreement to support a fundamental change in policy - i.e., to feed their people better. Once having embraced this policy, they said they could not return to the food shortages of the past, and they brought large amounts of our grain during the high-price 72-73 period to sustain that policy.

Topic 4 - India has surplus grain - we have vegetable oil and non-fat milk solids. Would it make sense to attempt a program mixture of Indian -- US commodities to feed the hungry? How can there be a limit to alienating hunger except the ability to manage programs?

Topic 5 - Perhaps four factors are unique. Both Taiwan and South Korea eagerly sought food assistance and such of the aid was supplementary to local output. The US military presence and influence was strong. Food leaks from commissaries help build markets. The military employs people and buys local material. Third, cheap labor and authoritarian government policy attracted American investment and know-how. That fueled growth and expanded market demand. Finally, both governments encouraged movement toward an upgraded Western diet, and encouraged their industry to participate in our market development program.

Topic 6 - The extension of private credit is not primarily a food aid matter. If AID, the World Bank, International Monetary Fund, and lending banks do not have such a requirement, it would be difficult to have one for food aid. Our past efforts in this area were not encouraging.

Topic 7 - Obviously, growth is the key to trade expansion. There will be more expansion in countries like Taiwan and South Korea which emphasize industrial production and exports, and which encourage foreign investment. We could sell much more to Japan if they encouraged foreign investment in their agricultural industry. We could sell more to Japan if they would eliminate import quotas and abolish the food agency, and the reported informal allocation system among processors. Trade gains are less in areas which are primarily agricultural in nature like Argentina, which once had a P.L. 480 program. But Brazil, which is promoting more balanced growth could become a growing market for a wide variety of US products.

Topic 8 - I think I have already addressed this point, but I will add a few comments.

A. P.L. 480 is small potatoes today. In the 50's and 60's, it was huge and commanded strong administration and congressional backing.

B. We are spending so much treasure to support prices and store surpluses that there is little general support for enlarged food aid.

C. In the 50's, the whole world (except the Communist countries) were eligible and sought food aid - Argentina, France, Italy, Spain, Japan, for example. Today, agricultural trade gains will come in trade policy; and, in some cases, trade muscle negotiations with many such countries.

D. With the success story developing areas - Taiwan, South Korea, trade muscle is also the answer. Their huge trade surpluses make them vulnerable.

E. With countries like Mexico and Brazil, agriculture must be heavily involved in the debt-rescheduling process. To maximize our position, we probably need a longer-term credit facility of our own. Such a program is essential to maintain consumption in debt-ridden countries rather than to increase consumption.

F. With the European community we should not retreat from our aggressive trade policy stance. It is long overdue, and has cost U.S. world agriculture billions of dollars. Reform of

their insular system is the key required to give efficient agricultural exporters the opportunity to participate in sustained, competitive trade growth. And we and other exporters should be prepared to adjust our own programs to achieve such a reform.

G. I offer a list of some factors I know we all recognize. No single dominant exporter can adjust world supplies by itself, nor can it raise support prices without providing economic benefits to others - Reserves can be overdone and misused - Agriculture is cyclical, we gain most in times of balance and growth, and lost most in times of surplus and stagnation - and last, unilateral export controls do not work.

I want to pay tribute to the dedicated people who made P.L. 480 a success story in my time - people like Gwynn Garnett, Pat O'Leary, Clarence Eskildsen, Horace Davis, Tom Street, Art Mead, Don Tierney, and Bill Starkey, to mention a few. All of our Secretaries gave us strong support as did friends in AID, such as Ed White, Herb Waters, Frank Ellis, Kathleen Bitterman, and Roger Stewart.

Finally, I am very proud of the contribution made by our cooperative market development program. It has moved farmer participation in the trade stream from the farm gate to the overseas consumer. The program should be strengthened, not weakened.

STATEMENT OF DAVID I. STEINBERG, PRESIDENT, MANSFIELD CENTER FOR PACIFIC AFFAIRS, HELENA, MT

1. P.L.-480 Title I food afd has been and remains a critical component of the foreign assistance program, as well as an important consideration to the domestic U.S. constituency. The four stated objectives of the program: to eliminate agricultural surpluses, create markets, pursue foreign policy goals as well as humanitarian and developmental considerations are all worthy. They may, however, internally be in conflict with each other in various countries and under certain conditions. Through internal sales of these commodities, the program has also been used extensively in the past as the source for the generation of local currency for governmental budgets, or for the local, required contributions to foreign supported development projects. It is a relatively flexible, quick-disbursing, and expandable means to provide U.S. support to nations where such assistance is deemed necessary or desirable. As such, it has sometimes been perceived to be the continuous, critical element in a number of foreign assistance programs.

2. From 1980 to 1983, the Office of Evaluation [now the Center for Development Information and Evaluation], Agency for International Development, carried out and published a series of impact evaluations and related studies of the P.L. 480 Title I food programs. Those countries studied were Sri Lanka, Egypt, Jamaica, Peru, and Bangladesh. I led the Sri Lanka team, and have in addition written in other A.I.D. publications, conclusions about the earlier Korea program.

3. The A.I.D. studies have indicated that the P.L. 480 program was more successful overall in Sri Lanka, Bangladesh, and Peru,

but had mixed results in Jamaica, Egypt, and Korea. It may have furthered a stated objective of the act, but interfered with others. For example, it was the single largest component of the aid program to Egypt [$42.3 billion since 1960], and clearly allowed the U.S. to dispose of surpluses, supported foreign policy objectives, and enabled the U.S. to fulfill aid levels politically predetermined, but it did not result in "leverage" for policy reforms in the agricultural sector. In Bangladesh, however, under Title III program, such important reforms were implemented.

4. In Sri Lanka, the program was successful for two essential reasons: [1] It did not significantly interfere with the production of the major crop, rice, as imports were mainly wheat, and wheat, as the grain of second choice, cannot be grown in Sri Lanka in any significant magnitude; and [2] the agricultural policies of the Sri Lankan government were already geared to encourage rice production and were generally sound [consumption policies were, however, another matter]. Sri Lanka has virtually been self sufficient in rice for several years.

5. In Korea, the P.L. 480 program allowed the Syngman Rhee and Park Chung Hee governments, the latter for almost a decade, virtually to ignore except peripherally the rural sector. Because of of internal political considerations, Park created a massive rural development program, including increased rice and barley prices, that transformed the Korean rural sector. This was mainly a result of the election of 1971 that he almost lost to Kim Dae Chung, and in which his rural support significantly eroded, as well as a result of the shift of P.L. 480 from grant to loan in 1968. P.L. 480 allowed successive Korean governments to avoid rural policy reforms until they felt it was in their internal political interests to implement them.

6. The generation of local currency in Korea through P.L. 480 was an essential element in the U.S. program, and vital to the continuation of the Republic in the 1950's. As urbanization and population increased, Korean wheat consumption rose, and Korean self sufficiency in wheat production dropped from 36 percent to 2 percent. Most imported wheat comes from the United States. In a sense, the P.L. 480 program was the precursor to U.S. market penetration, but that might have occurred in any case because of U.S.-Korean political and military commitments. It would be inaccurate to maintain that Korean growth occurred only after foreign assistance stopped, or that the P.L. 480 program was not essential to that nation in its earlier period. The lesson from both the Korean and Egyptian experience is that P.L. 480 as a instrument of agricultural reform will be most difficult if security or political considerations are paramount.

7. In the Philippines, thought was given in 1978 to a reopening of the P.L. 480 program, which had ceased some years earlier, as a means to enable the Philippine government to solve the "peso shortfall" problem. This resulted from the government's overcommitment of its local currency development budget, and thus insufficient funds to meet its commitments, especially to foreign aid agencies. The program was not reintroduced at that time.

8. In terms of the Gilman-Solarz Amendment of 1981 mandating additional self-help measures in agriculture, the record is mixed. Only Peru seems to have successfully dealt with that issue. In Bangladesh the record was spotty, in Jamaica poor, and in Sri Lanka, where additional self-help measures were not needed,

such programs were lost in governmental budgets. A.I.D. often does not have the staff to monitor such measures, and those countries capable of handling the extensive paperwork to document those programs probably need such additionality least.

9. It is unclear from the evidence available from these evaluations what the effect was of the Bellman Determination of 1977 that P.L. 480 not be a disincentive to agriculture and the nations have transport and storage capacity to handle the program. In the case of Egypt, however, wheat imports clearly have been a disincentive to increased wheat production. The Korea case predates the Bellman Determination.

10. Recommendations from these studies and other experience suggest:

A. The need for advanced warning on the types of commodities to be in surplus, otherwise distribution of such commodities can undercut local agricultural self-help measures.

B. The need for local governments to be more deeply involved in the selection of such commodities.

C. Multi-year commitments to the supply of such commodities.

D. Programming of food should be determined by volume, not dollar amount, as the latter is too mercurial.

E. Although disincentives to local agricultural production may be charged to the deficiencies of local policies, P.L. 480 can perpetuate those policies.

F. The planning and administration of P.L. 480, split among U.S. Government agencies, results in inefficiencies and reflects the polarity of trying to satisfy international affairs and domestic constituencies.

G. P.L. 480 is useful politically in programming up to politically predetermined fiscal levels of support, but there are inherent dangers in such activities.

STATEMENT OF WINSTON WILSON, PRESIDENT, U.S. WHEAT ASSOCIATES, INC.

Mr. Chairman and members of the Committee. I am Winston Wilson, President of U.S. Wheat Associates, which is the U.S. wheat producer's organization for development of export markets. We are funded by wheat producers in 14 member states, and also receive funds from the Foreign Agricultural Service of the U.S. Department of Agriculture. U.S. Wheat Associates has 13 foreign offices and currently conducts programs in about 110 countries.

I would like to begin by commending the Committee for holding this series of hearings. I believe that it is extremely useful to review the administration and impact of U.S. food aid programs---particularly in relation to the determination of primary objectives of the programs and establishment of the rank of priorities among these objectives.

When one reads the original language of Public Law 480, it is obvious that one of the primary objectives of Congress in passing this legislation was to expand international trade and develop and expand export markets for U.S. agricultural commodities. In fact, that is most of the first few lines of Section 2 of the Preamble to the Bill where Congress laid out the basic policy objectives of

the legislation. Also included, of course, were the very important objectives of combatting hunger and malnutrition as well as economic development in the developing nations. It is our concern that over the years the primary objective envisioned in 1954 has been relegated to a much lower priority by administration of the Act, and in many cases, the program has been a negative factor in the development of markets for U.S. agricultural products. Perhaps some of this change occurred during the decade of the 70's when agricultural market development seemed to be of lesser importance than it had been in the 50's and 60's, and the program began to be major geopolitical tool. It is our position that the various objectives of the Act are not mutually exclusive and the attention needs to be refocused on the market development aspects of P.L. 480. A case in point might be the letter I received from this Committee in regard to today's hearing. Eight topics were listed to be addressed and the eight and final topic was the "the creation of markets" for U.S. farmers.

Due to a limited amount of time and in order to address those areas in which we have had the most experience, we would prefer to concentrate our discussion on the development of agricultural markets. However, before moving to that specific area, I would briefly express our view that food aid can and does play a very significant role in economic development in developing countries, well beyond the obvious humanitarian concerns. Our general objective in all of our market development activities is to develop cash or reliable credit customers for U.S. agricultural products. Clearly, we have a vested interest in economic development around the world and believe that the P.L. 480 program has been a very significant factor in the economic development of many of the recipient countries over the years and are very optimistic about future possibilities.

In terms of direct market development, we believe that one of the primary benefits of concessional and credit sales under P.L. 480 is to introduce U.S. agricultural products to the recipient country. Clearly, if the introduction of these products is to ultimately result in the establishment of a ready market, it is important that the experience with these products should be good. Unfortunately, this is not always the case. You have all heard horror stories, I am sure, of problems with vessels which are sometimes used under the U.S. flag requirements of the cargo preference language of P.L. 480. I will not belabor that point this morning, but would emphasize that far too often the bad experiences with the means of shipment results in a very negative attitude toward U.S. products. We believe that additional efforts must be made to see that in honoring cargo preference requirements, more attention be paid to the quality of vessels used in order that the recipient does not feel that buying or receiving agricultural commodities from the United States is an ordeal which should be avoided.

Another problem which occurs all too frequently is that there sometimes appears to be very little recognition on the part of the administrators of the P.L. 480 program that the timing and dependability of food shipments is of primary importance. All too often, one has the impression that the administrators of the program have not realized that people must eat every day and not just "sometime during the fiscal year", and that bureaucratic delays in authorization and shipment can cause food shortages and

very serious problems both in terms of human suffering as well as political reaction. A different but related problem is the variability of P.L. 480 availability from one year to the next. Clearly, in most instances P.L. 480 is an important factor in the food supply of the recipient countries, and governments must be assured of some consistency from one year to the next. One means of dealing with both of these problems would be multi-year programming of P.L. 480. This would provide for adequate planning on the part of the U.S. Government as well as the recipient and would allow shipments on a regularly scheduled basis.

Another factor which we feel should be carefully reviewed is the requirements placed on the recipient country, more popularly known as "self-help measures". We believe that there should be a systematic review of these measures made by an appropriate oversight group in order to determine their appropriateness and viability in terms of economic and political realities. Far too often we find that the goals established by the administrators of the P.L. 480 program are not always realistic and that P.L. 480 agreements are inordinately delayed by the recipient government's inability or unwillingness to accept the self-help requirements. It is our view in many cases these requirements are imposed by fairly junior personnel in the field with very little review and consideration by more competent officials. One example of this arbitrary imposition of requirements is the current privatization initiative by the State Department. This is, as many cases, a laudible goal and one that should be pursued. However, in some instances the privatization of food industries in P.L. 480 recipient countries is not only impractical but impossible to achieve. I believe that there was considerable discussion of this issue in an earlier hearing held by this Committee. We believe very strongly that a thorough review of self-help measures and reporting requirements should be undertaken.

I earlier mentioned the need for early programming in order to allow recipient countries to plan their food supply. One important consideration of P.L. 480 programming should be the commodity mix going to a specific country. Very often the initial P.L. 480 programming during the year appears to have been accomplished by allocating a specific quantity of several commodities among a number of recipient countries. In many cases the commodity mix desired may change during the year due to local crop situations or other unexpected events. There appears to be a degree of reluctance by the U.S. Government to change commodity mixtures even though the commodity originally requested may, in fact, be in surplus supply in the recipient country. More flexibility during the course of a given fiscal year could certainly make the program more effective.

A final factor which we believe is extremely important in terms of the role of food aid in agricultural market development is the lack of concerted effort and sometimes unwillingness to convert food aid into commercial business. The USA is the world's largest contributor of grain under the food aid convention giving 12 times more aid than Australia, 7 times more than Canada, and 2 1/2 times more than the entire European Economic Community, yet in far too many instances we find that food aid recipients, most of whom also make commercial purchases, take their food aid from the United States and do their commercial business elsewhere. We believe this is a situation which could be changed. It is our opinion

that part of the blame for this situation is a great reluctance on the part of the managers of food aid programs to engage in any activity which might ultimately result in business for the United States. While there are certain GATT considerations which must be observed, other food aid donors seem to have a much better success rate in doing commercial business with the recipients of their aid programs. We believe that there should be some rather specific directives to AID personnel in the field to give some consideration to more innovative packaging of food aid programs with the ultimate goal of achieving commercial sales.

In summary, it is our position that the P.L. 480 food program has been a very successful program over the past 32 years. At the same time, we strongly believe that there needs to be a refocusing of priorities in this program. Clearly, the humanitarian aspects of the program must continue to be a number one priority. At the same time, we feel that there needs to be more attention paid to the market development aspects of the program and perhaps a bit less emphasis on the geopolitical consideration which during the past decade appear to be the primary consideration. The program obviously has great potential in accomplishing humanitarian goals. It has succeeded very well in this regard. At the same time, we feel it also has great potential in terms of market development objectives which were, after all, the primarly consideration in 1954 when Congress enacted this law. We believe that there should be a refocusing of priorities and that the market development goal for U.S. agricultural products should not be the lowest ranking priority of all of the objectives.

STATEMENT OF RICHARD A. SMITH, GOVERNMENT RELATIONS ADVISOR, HERON, BURCHETTE, RUCKERT & ROTHWELL

I thank you for the opportunity to testify before this subcommittee on the issue of food aid and how its use can better promote economic growth and develop new markets for U.S. farmers.

Food aid has been the principal means through which the U.S. has provided food assistance abroad. Title I of Public Law 480 authorizes concessional credits on an annual basis for sales of U.S. farm products to developing countries. These credits provide long term loans at low interest rates to the recipient countries. Food aid has been a beneficial program. Better nutrition results in healthier people which starts the cycle towards economic growth. To realize the full potential of the food aid program, the money generated must reach a greater sector of the private population. Currently, the local currencies generated from Title I sales are available for use largely by the recipient governments. The funds are used to promote public businesses, quasi-public or governmental enterprises. Because the funds are available to the same groups, no new economic activity can develop. High priority must be given to funneling the funds generated by Title I aid to the larger private sector of the recipient countries. Only this way will economic growth be stimulated and new markets be developed for U.S. farmers.

Mr. Chairman, it has been asked that the following eight topics be addressed.

1. In what ways can our food aid be better used to promote economic growth?

Access by the private sector to long term, low interest loans is a major component in stimulating economic growth in developing countries. In the past, funds generated by Title I sales have primarly benefited only governmental or quasi-governmental enterprises. Food aid by its nature is based upon political policies and decisions, which under current policy guidelines and programs results in funding mostly to governments. Because funds are generated almost entirely through governments, the current programs emphasize government to government trading and development programs. New policies need to be developed that place more emphasis on using hard business decisions to determine where the funding generated is used. This would ensure that more of the money would benefit the private sector of the population. Today the private sector is limited by a lack of available long term, low interest loans. The result is that no "new" economic activity develops. This policy encourages the perpetuation of government or quasi-government enterprises which are not necessarily efficient. The opportunity for more private sector entrepreneurs is stifled. Funds must be made available for their use if dramatic change is to occur in economic growth and import markets.

2. If food aid is not the answer to promoting economic development, what in your opinion is?

Food aid is a good way to promote economic growth. Better nutrition is a start. Better nutrition leads to healthier people which in turn leads to greater economic growth. Care must be taken to ensure that the money generated by food aid is used in the best and most productive manner. Only this way will we see the results we desire, more economic growth and larger markets for U.S. farmers.

The problem is not that food aid is the wrong program, the problem is that the money generated by this program is administered in a way that limits the availability of this funding to the private sector. For economic growth to occur, the private sector entrepreneurs must reap the benefits of low interest, long term loans. By developing viable economic businesses a larger segment of the population will benefit then under the current program.

The funds generated by food aid programs have become a principal source of foreign aid to underdeveloped countries. As a result, it is very important that programs be administered properly to reap the maximum benefits.

3. It has been said that food aid may actually deter economic growth through such means as depressing local farm prices and supporting counter-development policies of local governments. Do you believe this to be the case, and if so, how may it be avoided?

Deterence of economic growth is a possible result of the food aid program but only because the recipient country has no "policy". the answer to this problem is one of "targeting". The country receiving the food aid must establish a policy. Shipments of imports must be staggered so that they do not coincide with the local harvest. Food aid provided under title I represents a badly needed resource in many countries. Many

of these countries are plagued with high food deficit problems. These countries need assistance, that is not questioned. However, the primary question concerns the level of that assistance.

To avoid any deterent effect, we must be sensitive to the possible adverse effects of food aid. In developing and implementing food aid programs, the following issues need to be considered:

1. Do the countries receiving the food aid really need the assistance? The analysis should focus on the country's ability to produce the commodities themselves or substitutes and the total effect of demand in the country.
2. Can the countries afford to buy the commodities on their own? Countries with a clear deficit, high levels of malnutrition and serious balance of payment problems should be given priority. Countries who obviously can produce or afford to buy the commodities should not be targeted.
3. Commodities shipped should be those which interfere the least with domestic production. Also, a shipping schedule should be set up to avoid any conflict with the local harvests.

If these guidelines are followed our food aid assistance will promote economic growth and minimize any counter-development effects.

India is a good example of a country Title I aid has helped. At one time India was the largest recipient of food aid. Today India's economy has improved to the point it now exports certain products. Food aid did not deter India's economic development. Food aid assistance can help promote economic growth in all countries. How quickly the results occur largely depends on the level of economic activity, education and entrepreneurship of the recipient country at the outset. The countries at the lower end of the scale will develop at a much lower rate.

4. India has now become an exporter of food. At the same time, it is estimated that there are more hungry people in India than anywhere else in the world. What should our government's response to this situation be? Should food aid be increased, decreased, or held the same?

India is still plagued with poverty and a large deficit in the diets of a large portion of its population. The issue is not does India need the additional food, but should we be providing it under concessional terms? It is clear that India has made tremendous progress in its own economic development. The foreign exchange situation has improved largely because of the success of food aid and other programs in India.

My feelings is that India is in between. India has not reached a level of graduation from the food aid programs like Taiwan, South Korea and Spain, but yet India needs to be considered differently than countries at the bottom of the scale like Bangladesh. If India continues to improve economically, the U.S. should seriously consider reducing food aid to India and providing assistance to those countries with a greater need.

5. Taiwan and South Korea are often suggested as two countries in which our food aid helped promote and create markets for our

farmers. What unique aspects of these food aid programs made them successful in these two instances?

It is not so much that our food aid programs to Taiwan and South Korea where different, rather a different level of development existed at the outset in Taiwan and in South Korea. The population of Taiwan and South Korea where better educated and an entrepreneurial spirit existed. These countries were able to more efficiently use our food aid as a development tool and as a result developed much more rapidly. Now a very vibrant and strong private sector exists in Tawian and South Korea. In other countries that perpetuate the growth of governmental businesses, just the opposite has occurred. South Korea and Taiwan reinforce our original proposition that if we want effective food aid assistance, we need to use food aid to leverage countries to use the assistance to develop the private sector. We must recognize that the level of education and economic development that the country starts at will determine the time frame for success.

In both Taiwan and South Korea the governments made a major policy decision to encourage the private sector's expansion. The opposite is the case in other countries which perpetuate quasi-governmental enterprise.

6. In a recent study, correlation was found between economic development and the availability of private credit. In light of this, to what extent should our food aid programs be geared to promoting the availability of such credit. What would be the most efficient way of making such credit available?

My major emphasis throughout this testimony has been that the major constraint to poor economic development is the lack of availability of credit in these countries to the private sector. This is a major constraint to business expansion. No "new" economic growth can occur unless businesses are encouraged.

The U.S. food aid program should be geared extensively to funneling the funds generated by food aid sales to the private sector. The executive branch should make every effort to "quickly" gear the use of food aid funds to private credit. They key is to provide the private sector with cash flow now. Currently, the money generated is funneled through existing governmental financial structures. All indicators point to the need for a vital private sector if we are to see economic growth. The only way this will happen is if a major effort is made by the U.S. government to require the countries to funnel the funds through private lending institutions. This will result in the money being lent to viable institutions and not solely to government institutions that may be inefficient. Fortunately, we see this happening even without the efforts of our government. Mexico has recently sold off a major government owned steel business which had become inefficient. All of this is reflective of the need for more private involvement.

7. Is it true that as countries develop, they become better markets for our farmers, or is it true only under certain conditions? If you feel the latter is the case, what are these conditions that cause developing countries to become better markets for U.S. farmers?

As countries develop, they become better markets for U.S. farmers. As per capita income rises, the need for more protein

such as meat, eggs and dairy products rises. There are many good studies to confirm this fact. To produce these protein products efficiently requires intensive use of animal feed. The basic ingredients for animal feed are feed grains and soybean meal which the U.S. produces very efficiently and is a reliable supplier.

The U.S. must do all it can to ensure that these economies develop and food aid is only one component of the development process. These countries need to develop policies that allow for economic growth and the developed countries, like the U.S. must adopt trade policies which allow these countries to trade.

8. How could our food aid be better used to create markets for our farmers, both today and in the future?

The key to expanding U.S. exports lies in economic growth in developing countries. Currently the countries with the greatest population and the greatest potential for growth in the future are those countries in which the nutrition levels are low. Consequently, as these countries strive to improve their diets, there will be an increase in demand for grains and animal feed protein produced by U.S. farmers.

However, these countries will not be able to import large quantities of agricultural imports unless their economies grow. As the economy grows, the population wants a better diet and they will be earning enough foreign exchange to buy these products. This is the reason why the subject of this hearing is so important. The U.S. government must ensure that the policies it adopts in other areas of assistance and in trade areas all foster growth in the underdeveloped countries.

Mr. Chairman, I thank you for inviting me to testify before this committee. It has been a pleasure. I look forward to continuing to work with you on promoting U.S. markets and economic development through food aid programs.

Thank you.

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